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Auburn Securities 3 plc

Directors' report and financial statements

Year ended 31 December 2009

Registered number 4442874

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Directors' report and financial statements

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Directors and other information

Directors	M McDermott J Schroeder Wilmington Trust SP Services (London) Limited
Secretary	Wilmington Trust SP Services (London) Limited
Bankers	Barclays Bank PLC Financial Markets Team Level 28 One Churchill Place London E14 5HP
Solicitors	TLT Solicitors One Redcliff Street Bristol BS99 7JZ
Auditors	KPMG Chartered Accountants 1 Stokes Place St Stephen's Green Dublin 2 Ireland
Registered office	c/o Wilmington Trust SP Services (London) Limited Fifth Floor 6 Broad Street Place London EC2M 7JH

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Auburn Securities 3 plc

Directors' report

The directors present their directors' report and audited financial statements for the year ended 31 December 2009

Principal activities, business review and future developments

The principal activity of the company is the provision of residential and buy-to-let mortgages secured on properties in the United Kingdom There has been no significant change in those activities during the year

The company was established in 2002 as a special purpose entity to effect the securitisation of a tranche of mortgage assets from a related entity, Capital Home Loans Limited ("Capital Home Loans") Since then, the company has continued to hold the related mortgage assets, the income and capital payments from which have been used to repay debt funding raised as part of the original securitisation transaction Capital Home Loans administers the mortgage book and loan notes on behalf of the company and further details of this relationship are set out in note 19

Key risks and uncertainties faced by the company are outlined in note 16, and key performance indicators, which principally relate to mortgage portfolio arrears and the portfolio's associated liquidity and interest rate profile are also set out in note 16

Results and dividends

Details of the results for the year are set out in the statement of comprehensive income on page 13 and in the related notes No dividends have been paid or proposed for either of the 2009 or 2008 financial years

Directors

The following directors have been in office since 1 January 2009

M McDermott
J Schroeder
Wilmington Trust SP Services (London) Limited

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Directors' report *(continued)*

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare company financial statements for each financial year Under that law the directors have elected to prepare the company financial statements in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006

The company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the company and the performance for that period The Companies Act 2006 provides in relation to such financial statements, that references in the relevant part of that Act, to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing the company financial statements, the directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgments and estimates that are reasonable and prudent,
- State whether they have been prepared in accordance with IFRS as adopted by the EU, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that its financial statements comply with the Companies Act 2006 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Policy on payment of creditors

The company is responsible for agreeing terms and conditions under which business transactions with suppliers are conducted It is the company'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

Political and charitable contributions

The company made no political or charitable contributions during the year.

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Directors' report *(continued)*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

Auditor

In accordance with Section 493 of the Companies Act 2006, a resolution for the re-appointment of KPMG as auditor of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board

Wilmington Trust SP Services (London) Limited — 1 April 2010
Secretary

KPMG
Chartered Accountants
1 Stokes Place
St Stephens Green
Dublin 2
Ireland

Independent auditor's report to the members of Auburn Securities 3 plc

We have audited the financial statements of Auburn Securities 3 plc for the year ended 31 December 2009 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements Further details of the scope of an audit of financial statements are provided on the Auditing Practices Board's website at http.//www apb org uk/apb/scope

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of the profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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Independent auditor's report to the members of Auburn Securities 3 plc *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

Patricia Carroll

1 April 2010

Patricia Carroll (Senior Statutory Auditor)
For and on behalf of KPMG, Statutory Auditor
Chartered Accountants
1 Stokes Place
St Stephen's Green
Dublin 2
Ireland

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Auburn Securities 3 plc

Accounting policies

Statement of compliance

The statutory financial statements set out herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU The standards adopted by the company are those endorsed by the European Union and effective as of the date of the company's statement of financial position

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Basis of preparation

Auburn Securities 3 plc is a company incorporated in the United Kingdom. The principal activities are outlined in the directors' report

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, which have been stated at their fair values The accounting policies that the company has applied in the preparation of the financial statements for the year ended 31 December 2009 have been set out below

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities. Actual results may differ from the estimates made. The estimates and assumptions are reviewed on an ongoing basis and where necessary are revised to reflect current conditions The principal estimates and assumptions made by management relate to loans and advances impairment provisions including security valuations and interest rate assumptions Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20

Cash and cash equivalents and restricted cash balances

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than investing or other purposes Cash and cash equivalents consist of cash and balances with banks that are freely available, bank overdrafts and short term borrowings and non-equity investments with a maturity of three months or less from the date of acquisition Restricted cash comprises cash held which is required by the company's governing documentation to be utilised primarily to repay its non-recourse borrowings These amounts are not included within the company's own (unrestricted) cash balances in the statement of financial position or in the statement of cash flows

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Accounting policies *(continued)*

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the company has no intention of trading They are initially recorded at fair value and subsequently measured at amortised cost less an allowance for incurred impairment losses Income is recognised on an effective interest basis as interest income in the statement of comprehensive income

The company assesses impairment of these financial assets at each balance sheet date on a case by case basis for assets that are individually significant and collectively for assets that are not individually significant

Assets are impaired only if there is objective evidence that the result of one or more events that have occurred after the initial recognition of the asset have had an impact on the estimated future cash flows of the assets For individual assets this includes changes in the payment status of the counterparty Collective assessment groups together assets that share similar risk characteristics and applies a collective provisioning methodology, based on existing risk conditions or events which have a strong correlation with a tendency to default This impairment is calculated by comparing the present value of the cash flows discounted at the effective interest rate applicable to the asset (after taking into account security held) with the carrying value in the statement of financial position.

Where loans are impaired the written down value of the impaired loan is compounded back to the net realisable balance over time using the original effective interest rate This is reported through interest income within the statement of comprehensive income and represents the unwind of the discount A write-off is made when all or part of a loan is deemed uncollectible or forgiven Write-offs are charged against previously established provisions for impairment or directly to the statement of comprehensive income

Derivatives

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently classified as financial assets or liabilities held for trading Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability The gain or loss on re-measurement to fair value at the balance sheet date is recorded in the statement of comprehensive income within operating expenses as all of the entity's derivatives on hand are treated as held for trading purposes

A derivative may be embedded in another financial instrument, known as a "host contract" Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host and recorded on the statement of financial position at fair value Subsequent movements in fair value are posted to the statement of comprehensive income, whilst the host contract is accounted for according to the policy for that class of financial instrument

Fair values of derivative instruments held by the company were obtained by using discounted cash flow analyses, where appropriate Further details on how such derivatives were fair valued are outlined in note 15

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Accounting policies *(continued)*

Segment reporting

A segment is a distinguishable component of the company which is segregated based on data that the chief operating decision makers receive and use to make key decisions and which is subject to risks and rewards that are different from those of other segments

Foreign currencies

The company's functional currency is Pounds Sterling The financial statements are presented in Pounds Sterling, which is also the company's presentation currency

Foreign currency transactions are translated into Pounds Sterling at the exchange rate prevailing at the date of the transaction Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the balance sheet date Exchange movements on these are recognised in the statement of comprehensive income

Operating leases

Expenditure on operating leases is charged to the statement of comprehensive income on a straight line basis over the lease period

Income tax expense

Income tax expense comprises both current and deferred tax Income tax is recognised in the statement of comprehensive income except to the extent it relates to an item which is recognised directly in equity, in which case it is recognised directly in equity Current tax payable is provided on taxable profits at current taxation rates enacted or substantively enacted at the year end and also includes any adjustments to tax payable in respect of previous years Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, without discounting Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax liabilities and assets are offset only where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

Dividends

Final dividends on ordinary shares are recognised in the period in which they are approved by the company's shareholder Interim dividends are recognised in the period in which they are paid

Financial liabilities

Financial liabilities include debt securities issued Financial liabilities are initially recorded at fair value and then subsequently measured at amortised cost calculated on an effective interest basis

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Accounting policies *(continued)*

Interest income and expense

Interest income and expenses are recognised in the statement of comprehensive income using the effective interest method The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability

Deferred consideration

Under the terms of an agreement between the company and a related undertaking, the company has a liability for future deferred consideration which is contingent on the occurrence of certain future events, principally the realisation of excess income by the company This instrument is treated as a financial liability carried at amortised cost, however the directors consider that the future net income arising cannot ordinarily be forecast with reasonable accuracy and accordingly the carrying value of the instrument is revised each year to reflect actual contracted cash flows due

New accounting standards applied during 2009

The company has applied revised IAS 1 *Presentation of Financial Statements (2007)* which became effective as of 1 January 2009 As a result, the company has presented a consolidated statement of comprehensive income incorporating the former income statement and statement of recognised gains and losses as one primary statement and has also presented a statement of changes in equity Comparative information has been re-presented so that it also is in conformity with the revised standard The adoption of this revised standard impacts presentation aspects of the financial statements only

The company has also applied IFRS 8 *Operating Segments* which became effective as of 1 January 2009 This requires segmented information to be presented based on the data that the chief operating decision makers receive and use to make key decisions The company's principal business is the provision of residential and buy-to-let mortgages secured on properties in the United Kingdom All of the associated net results and assets are located in the United Kingdom and are derived from this business which are managed on a unified basis The company accordingly considers that it operates in one segment and that there are no separate reportable segments for which additional segment disclosures are required This analysis of segments was similar under the previous IFRS reporting standard and accordingly, comparative information has not been represented and there was no impact on reported results in this regard

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Accounting policies *(continued)*

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements None of these will have an effect on the financial statements of the Company, with the exception of

- IFRS 9 *Financial Instruments,* published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets amortised cost and fair value A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding All other financial assets would be measured at fair value The standard eliminates the existing IAS 39 categories of *held to maturity, available for sale* and *loans and receivables* For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss

  The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated, instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value

  The standard is effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted

  The Company is currently in the process of evaluating the potential effect of this standard Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Company's financial statements

- Amendments to IAS 39 *Financial Instruments Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship The amendments will become mandatory for the Company's 2010 financial statements, with retrospective application required The amendments are not expected to have a significant impact on the consolidated financial statements

Auburn Securities 3 plc

Statement of financial position
at 31 December 2009

Registered number 4442874

	Note	2009	2008
		£'000	£'000
Assets			
Cash at bank – restricted	*17*	**27,677**	8,966
Derivative asset	*2*	**2,140**	1,145
Loans and advances to customers	*1*	**86,955**	93,535
Current tax recoverable	*6*	**-**	2
Prepayments and accrued income	*3*	**9**	4
Total assets		**116,781**	103,652
Liabilities			
Bank loans and overdrafts	*4*	**19,000**	-
Non-recourse funding	*5*	**88,194**	93,863
Current tax liability	*6*	**3**	-
Deferred tax liability	*8*	**376**	319
Accruals and deferred income	*7*	**8,110**	8,527
Total liabilities		**115,683**	102,709
Equity			
Share capital	*9*	**12**	12
Retained earnings	*10*	**1,086**	931
Total equity attributable to equity holders of the company	*10*	**1,098**	943
Total liabilities and equity		**116,781**	103,652

The financial statements on pages 7 to 36 were approved by the board of directors on 1 April 2010 and signed on its behalf by

Wilmington Trust SP Services (London) Limited
Director

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Auburn Securities 3 plc

Statement of comprehensive income

For year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Interest income	*11*	**3,460**	7,792
Interest expense	*12*	**(2,713)**	(6,159)
Net interest income - continuing operations		**747**	1,633
Operating expenses		**(519)**	(1,020)
Impairment losses on loans and advances	*1*	**(17)**	(47)
Profit before income tax – continuing operations	*13*	**211**	566
Income tax (expense)	*14*	**(56)**	(205)
Total comprehensive income for the year	*10*	**155**	361
Profit attributable to the owners of the company		**155**	361

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Auburn Securities 3 plc

Statement of changes in equity
For year ended 31 December 2009

31 December 2009	**Share Capital £'000**	**Retained Earnings £'000**	**Total Equity £'000**
Balance at beginning of the year	**12**	**931**	**943**
Total comprehensive income for the year – profit	**-**	**155**	**155**
Other comprehensive income	**-**	**-**	**-**
Balance at end of year	**12**	**1,086**	**1,098**

31 December 2008	**Share Capital £'000**	**Retained Earnings £'000**	**Total Equity £'000**
Balance at beginning of the year	12	570	582
Total comprehensive income for the year – profit	-	361	361
Other comprehensive income	-	-	-
Balance at end of year	**12**	**931**	**943**

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Auburn Securities 3 plc

Statement of cash flows
for the year ended 31 December 2009

	2009 £'000	2008 £'000
Cash flows from operating activities		
Profit before taxation for the year	**211**	566
Adjustments for:		
(Increase)/decrease in assets		
Loans and advances to customers	**6,580**	12,407
Prepayments and accrued income	**(5)**	4
Derivative assets	**(995)**	(556)
Increase/(decrease) in liabilities		
Non-recourse funding	**(5,669)**	(13,743)
Accruals and deferred income	**(417)**	(512)
Corporation tax refunded/ (paid)	**6**	(2)
Net cash from operating activities	**(289)**	(1,836)
Cash flows from financing activities		
Divestiture of restricted cash	**289**	1,836
Net movement in cash and cash equivalents	**-**	-
Cash and cash equivalents at 1 January	**-**	-
Cash and cash equivalents at 31 December	**-**	-

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Auburn Securities 3 plc

Notes
forming part of the financial statements

1 Loans and advances to customers

	2009 £'000	2008 £'000
Loans and advances to customers	**86,977**	93,579
Less impairment provisions – see below	**(22)**	(44)
All represented by residential mortgages in the UK	**86,955**	93,535

In November 2002, the company purchased the rights to certain cash flows from £397 9 million of mortgage assets from Capital Home Loans Limited, a wholly owned subsidiary of Irish Life & Permanent plc and a related entity These assets are a portfolio of United Kingdom residential mortgages, wholly secured on properties in the United Kingdom In order to fund the purchase of these mortgage assets, the company issued a series of floating rate notes

Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the mortgage assets purchased and any related income generated by the portfolio, and have no recourse to Capital Home Loans Limited, the mortgage originator

Capital Home Loans Limited is not obliged to support any losses which may arise in respect of the mortgage assets During the term of this transaction, any amounts realised from the mortgage portfolio 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

All loans and advances to customers are measured at amortised cost. The fair value of loans and advances to customers is disclosed in note 15 All of the above loans are secured on residential properties located in the United Kingdom A maturity and credit risk analysis of loans and advances to customers is shown in note 16

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Auburn Securities 3 plc

Notes *(continued)*

1 Loans and advances to customers *(continued)*

Impairment losses on loans and advances	**2009 £'000**	2008 £'000
Balance at beginning of year	**44**	2
Charged to statement of comprehensive income	**17**	47
Amounts written off	**(39)**	(5)
Balance at end of year	**22**	44

All of the loans and advances to customers have been pledged as collateral for the company's non-recourse loan notes received

	2009 £'000	2008 £'000
Specific provision	**-**	39
Collective provision	**22**	5
Balance at end of year	**22**	44

Interest income recognised on impaired financial assets amounted to £0 02m in 2009 *(2008 £0 03m)*

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Notes *(continued)*

2 Derivative financial instruments

	Positive/ (negative) fair value 2009 £'000	Notional Amount 2009 £'000	Positive/ (negative) fair value 2008 £'000	Notional Amount 2008 £'000
Derivative assets				
Interest rate swaps with Capital Home Loans Limited	**2,140**	**86,955**	1,145	93,535

The above interest rate swaps are treated as held for trading in Auburn Securities 3 plc and the movement in fair value for these swaps has been accounted for within other operating expenses

3 Prepayments and accrued income

	2009 £'000	2008 £'000
Other debtors	**9**	4

All amounts fall due within one year

4 Bank loans & overdrafts

	2009 £'000	2008 £'000
Amounts due to other banks and credit institutions	**19,000**	-

5 Non-recourse funding

	2009 £'000	2008 £'000
Mortgage backed loan notes	**87,470**	94,041
Less unamortised element of initial funding costs	**(70)**	(178)
Plus adjustment to effective interest rate	**794**	-
	88,914	93,863

On 25 November 2002, the company issued £397 9 million in mortgage backed loan notes in order to fund the purchase of a mortgage portfolio During 2009 the group opted to extent certain of its debt arrangements beyond the originally expected maturity, incurring an additional interest margin The effect of this has been reflected in the revised balance presented above as is required using the effective interest rate methodology prescribed by IAS 39

Auburn Securities 3 plc

Notes *(continued)*

5 Non-recourse funding *(continued)*

The floating rate loan notes are secured by a portfolio 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 portfolio is administered by Capital Home Loans Limited

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

£400 million mortgage backed loan notes	Balance outstanding at end of year £'000	Up to November 2009	After November 2009
Class A1 (£106 2 million)	nil	LIBOR + 0 18%	LIBOR + 0 36%
Class A2 (£267 6 million)	61,270	LIBOR + 0 325%	LIBOR +0 65%
Class M (£26 2 million)	26,200	LIBOR + 1 25%	LIBOR + 2 24%

The class A1 notes have been fully repaid

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

Auburn Securities 3 plc 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 agreement or the mortgages comprising the mortgage pool at any time,

b) on the interest payment date falling in November 2009 or any interest payment date falling thereafter;

c) 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

6 Current tax (liability)/ asset

	2009 £'000	2008 £'000
(Payable)/Recoverable within one year	**(3)**	2

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Notes *(continued)*

7 Accruals and deferred income

	2009 £'000	2008 £'000
Deferred consideration	**7,879**	8,148
Accruals and deferred income	**231**	379
	8,110	8,527

8 Deferred tax liabilities

	2009 £'000	2008 £'000
At start of year	**319**	118
Charged in year (see note 14)	**57**	201
At end of year	**376**	319
Deferred tax asset – effective interest rate adjustment	**(223)**	-
Deferred tax liability – derivatives	**599**	319
At end of year	**376**	319

9 Called up share capital

	2009 £'000	2008 £'000
Authorised		
Ordinary shares of £1 each	**50**	50
Allotted, called up and fully paid		
2 ordinary shares of £1 each	-	-
Allotted, called up and partly paid		
49,998 ordinary shares of £1 each of which £0 25 has been paid up	**12**	12
	12	12

Auburn Securities 3 plc

Notes *(continued)*

10 Reconciliation of movement in shareholders' equity

31 December 2009	**Share capital** £'000	**Retained earnings** £'000	**Total equity** £'000
At beginning of year	**12**	**931**	**943**
Changes to equity for 2009			
Profit on ordinary activities after taxation	-	**155**	**155**
Total shareholders' equity	**12**	**1,086**	**1,098**

31 December 2008	**Share capital** £'000	**Retained earnings** £'000	**Total equity** £'000
At beginning of year	12	570	582
Changes to equity for 2008			
Profit on ordinary activities after taxation	-	361	361
Total shareholders' equity	12	931	943

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Auburn Securities 3 plc

Notes *(continued)*

11 Interest income

	2009 £'000	2008 £'000
Mortgage interest receivable	**2,297**	6,005
Deposit interest receivable	**131**	460
Other income	**1,032**	641
On interest rate swaps	**-**	686
	3,460	7,792

All of the company's revenues arose in the United Kingdom

12 Interest expense

	2009 £'000	2008 £'000
On mortgage backed loan notes	**1,446**	5,945
Amortisation of initial funding costs on subordinated loan	**107**	214
On interest rate swaps	**224**	-
Other interest expense	**142**	-
Additional interest recognized on non-recourse funding	**794**	-
	2,713	6,159

13 Profit before tax – continuing operations

Included within profit before tax are the following	2009 £'000	2008 £'000
Auditors' remuneration		
Audit fee	**9**	6
Other non-audit work	**6**	3
Deferred consideration	**431**	891
Fair value (gains) on interest rate swaps	**(995)**	(556)

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

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Notes *(continued)*

14 Income tax expense

	2009 £'000	2008 £'000
Corporation tax at 28% *(2008 – 28 5%)*	**(1)**	4
Deferred tax *(see note 8)*	**57**	201
Total income tax expense	**56**	205

The tax assessed for the period differs from the standard rate of corporation tax in the United Kingdom of 28% *(2008· 28 5%)* The differences are explained below

	2009 £'000	2008 £'000
Profit before taxation	**211**	566
Profit by standard rate of corporation tax in UK of 28% (2008 28 5%)	**59**	161
Effects of		
Other	**(3)**	44
Effective tax charge in year	**56**	205

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Notes *(continued)*

15 Fair values of financial instruments

As at 31 December 2009	At amortised cost Carrying amount £'000	At amortised cost Fair value £'000	At fair value through statement of comprehensive income Carrying amount £'000	At fair value through statement of comprehensive income Fair value £'000
Assets				
Cash at bank – restricted	27,677	27,677	-	-
Loans and advances to customers	86,955	86,114	-	-
Derivative assets	-	-	2,140	2,140
	114,632	113,791	2,140	2,140
Liabilities				
Non recourse funding	88,194	89,929	-	-
Deferred consideration	7,879	7,879	-	-
	96,073	97,808	-	-

As at 31 December 2008	At amortised cost Carrying amount £'000	At amortised cost Fair value £'000	At fair value through statement of comprehensive income Carrying amount £'000	At fair value through statement of comprehensive income Fair value £'000
Assets				
Cash at bank – restricted	8,966	8,966	-	-
Loans and advances to customers	93,535	90,786	-	-
Derivative assets	-	-	1,145	1,145
	102,501	99,752	1,145	1,145
Liabilities				
Non recourse funding	93,863	91,104	-	-
Deferred consideration	8,148	8,148	-	-
	102,011	99,252	-	-

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Notes *(continued)*

15 Fair values of financial instruments *(continued)*

The fair values of each of the above financial instruments has been derived by discounting expected future cash flows at prevailing interest rates For loans and advances to customers, non-recourse funding and derivative instruments, this involved the estimation of the timing of receipts of cash flows from the underlying mortgage books as the timing of payment for both the non-recourse funding and the derivatives is dependent on the timing of cash flows from the securitised mortgage books The principal underlying assumptions related to these cash flows are as follows,

- The fair value of loans and advances to customers was derived by comparing the actual interest income yield from the company's fixed rate mortgage books with the current average interest income yield for new fixed rate mortgages with similar profiles and discounting the relevant projected cash flows to fair value, having also adjusted for credit spreads and expected loan losses through the cycle
- The fair value of non-recourse funding has been arrived at by adjusting the carrying value of the debt by a similar proportion to the adjustment made in arriving at the fair value of loans and advances to customers, on the basis that the funding only has recourse to this mortgage book
- The interest rate swap fair value was derived by discounting expected cash-flows on the swap, which are dependent on the timing of cash flows from the securitised mortgage book In this regard, the company has made certain assumptions regarding the timing of these cash flows which are based on both contracted mortgage terms and an historical analysis of the timing of average cash flows and effective lives of the underlying mortgages Principally, these assumptions were as follows

    - Assumed timing of repayment of remaining mortgages 10 years
    - Discount rate 0 85%
    - Assumed redemption rate year 1 (current climate) 2 5%, year 2 2 5%, year 3 5%, year 4 5%

These assumptions are, other than the discount rate, which is broadly based on current LIBOR rates applicable to the company, not based on observable market data because they are dependant largely on the assumed performance of the underlying mortgage book as the interest rate swap is specifically designed to reflect the cash flows from the underlying mortgage book In this regard, management has based these assumptions on its past experience of similar mortgage books originated in Capital Home Loans and on particular trends observed specifically in relation to this mortgage book in terms of arrears and expected terms The total amount recognised in the statement of comprehensive income in relation to this favourable estimate in the year was £1 0m gain *(2008 £0 56m gain)* In management's view any reasonably possible alternative assumptions would not materially impact on the fair value derived

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Notes *(continued)*

16 Financial risk management

(a) *Introduction and overview*

The company's financial instruments comprise mortgage assets, borrowings, comprising non-recourse funding raised from external investors as part of the original securitisation transaction, cash and liquid resources and other sundry instruments such as debtors and creditors arising directly from the company's operations The company has also entered into interest rate swaps designed to mitigate interest rate risk arising from interest basis mismatches within the company's interest bearing assets and liabilities Further details on derivative transactions are provided below The main risks arising from the company's financial instruments held are credit risk, interest rate risk, operational risk, market risk and liquidity risk The company's administrator reviews and agrees policies for managing each of these risks and they are, broadly, as follows

Credit risk

Credit risk is the risk that counterparties engaging in transactions with the company will not be able to meet their obligations as they fall due and arises principally from the company's loans and advances to customers For risk management reporting purposes the company considers and consolidates all elements of credit risk exposure (such as obligor default risk and sector or geographic risk) The company 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 company provides for loan losses which are known to have been incurred within its asset portfolio, based on both a specific review and a statistical analysis of its historical loan loss write-offs This process of credit monitoring takes account of external or economic factors and may result in the adjustment of credit policies to suit product or sectoral needs Due to the nature of the book, significant new credit exposures to particular sectors or individuals do not typically arise Credit risk is accordingly monitored largely through the management of arrears on these loans A summary credit risk analysis has been included below

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 company assumes interest rate risk principally from its dealings with its securitised book of residential mortgage loans The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar Sensitivity to interest rate movements is set out below, and this provides some detail on the year-end re-pricing profile for the company's financial assets and liabilities A liability (or negative) gap exists when liabilities re-price more quickly or in greater proportion than assets during a given period This tends to benefit net interest income when rates are falling An asset (or positive) gap exists when assets re-price more quickly or in greater proportion than liabilities during a given period This tends to benefit net interest income when rates are rising Interest rate sensitivity may vary during re-pricing periods As part of the securitisation transactions however, the company established an interest rate swap, which has the effect of converting the interest basis of all mortgage assets to floating LIBOR which matches the interest rate basis of all the company's liabilities The net effect of this interest rate swap is that the company is effectively left with no interest rate risk, and the table overleaf reflects this

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Notes *(continued)*

16 Financial risk management *(continued)*

(a) *Introduction and overview (continued)*

Operational risk
This is the potential for financial or reputational loss if key internal controls were to fail It includes loss from theft, error and systems breakdown The administrator's compliance department and its key management are tasked with the monitoring and control of such risk throughout the company A self-assessment process of risk mapping is conducted formally each year by management, and testing of key areas of these controls is performed periodically

Market risk
This is the risk of financial loss from changes in market prices of financial instruments, typically from the movements in interest rates and foreign exchange rates The company does not engage in any significant level of transactions in foreign currencies

Liquidity risk
Liquidity risk is the risk that the company will be unable to meet financial commitments arising from the cash flows generated by its business activities This risk can arise from mismatches in the timing of cash flows relating to assets and liabilities, however the company's principal liabilities, its loan notes, are structured specifically so as to mature broadly at the same time as the securitised assets are repaid Additionally there are other liquidity facilities available to the company in the event that mortgages do not yield funds, however to date, the company has not had cause to draw such funds for this purpose Regular reports on liquidity are submitted where appropriate, to the independent trustee of the company's loan notes and to the relevant regulatory authorities During 2009, the Company drew certain additional borrowings in order to provide additional cash security to the Company, owing to a ratings downgrade related to the existing swap providers

The company is also bound by certain financial and liquidity terms attaching to its non-recourse funding which effectively restricts certain of its cash balances on hand Full details of these have been provided below

Derivative transactions
The company has entered into a series of interest rate swaps This is a particular requirement of the non-recourse funding raised from the original mortgage securitisation and the terms of this securitisation and the related interest rate swaps are set out in more detail in the notes to these financial statements These interest rate swaps have been treated as being held for trading purposes in the company's financial statements Credit risk associated with these transactions are managed as part of the company's adherence to specified procedures as set out in its governing documentation including adhering to a strict priority of payments and making regular reports to the loan note trustees

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Notes *(continued)*

16 Financial risk management *(continued)*

(a) Introduction and overview (continued)

Capital management

The company does not have any particular capital requirements as mandated by the Financial Services Authority, principally because it does not accept deposits from customers, however its capital is reviewed and set from time to time by HM Revenue and Customs Because of its special purpose nature, the company's principal funding comes through its non-recourse debt, which is intended to be repaid fully from the mortgage assets on hand Capital is considered by management to comprise share capital on hand, retained earnings and any subordinated loans received from time to time, is considered to be sufficient for the particular nature of the company's activities and is in line with the company's governing documentation There have been no changes to the company's approach to capital management during the year

(b) Credit risk

(b) (i) Loans and advances to customers – exposure to credit risk

	2009 £'000	2008 £'000
Total carrying amount – maximum exposure to credit risk	**86,955**	93,535
Individually impaired (arrears > 3 months)	**444**	658
Allowance for impairment	**-**	(39)
Carrying amount	**444**	619
Collectively impaired	**914**	1,080
Allowance for impairment	**(22)**	(5)
Carrying amount	**892**	1,075
Neither past due nor impaired - carrying amount	**82,765**	89,116
Includes accounts with renegotiated terms	**2,854**	2,725
Total carrying amount	**86,955**	93,535

16 Financial risk management *(continued)*

(b) Credit risk (continued)

(b) (i)Loans and advances to customers (continued)

All of the above loans which are neither past due nor impaired have no arrears arising thereon The amount provided for collectively impaired loans was not material in the context of the financial statements, principally because the company has a low historical write-off rate

Impaired loans and advances
Impaired loans and advances are loans and securities for which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s) These are typically regarded as all loans in arrears for more than three months

Past due but not impaired loans
These are loans and advances where contractual interest or principal payments are past due but the company believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the company

Loans with renegotiated terms
These loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the company has made concessions that it would not otherwise consider Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring

Allowances for impairment
The company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment

Write-off policy
The company writes off a loan balance (and any related allowances for impairment losses) when it determines that the loans are uncollectible This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure

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Notes *(continued)*

16 Financial risk management *(continued)*

(b) Credit risk (continued)

(b) (i)Loans and advances to customers (continued)

The company holds collateral against loans and advances to customers principally in the form of first legal charges over the underlying property, other registered charges over associated assets, and guarantees Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below

	Loans and advances to customers	
	2009	2008
	£'000	£'000
	Property	Property
Against individually impaired	**444**	619
Against collectively impaired	**892**	1,075
Against neither past due nor impaired	**178,024**	202,032
Total	**179,360**	203,726

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Notes *(continued)*

16 Financial risk management *(continued)*

(b) Credit risk(continued)

***(b) (i)Loans and advances to customers** (continued)*

The company monitors concentrations of credit risk by according to nature of lending and by geographic location within the UK An analysis of concentrations of credit risk at the reporting date is shown below

	2009 £'000	2008 £'000
Concentration by sector – carrying amount		
Residential	**12,936**	14,674
Buy to let	**74,041**	78,905
Less Impairment provisions	**(22)**	(44)
	86,955	93,535
Concentration by location – carrying amount		
London & South East	**52,767**	56,173
North East	**1,699**	1,905
North Wales & North West	**11,759**	12,812
South & South West	**12,976**	14,204
Midlands	**5,191**	5,838
Other UK	**2,585**	2,647
Less Impairment provisions	**(22)**	(44)
	86,955	93,535

(b) (ii)Restricted cash on hand

At the year end all of the restricted cash on hand was held with one financial institution counterparties in the UK which are both rated by Moodys as P-1/Aa3 This is a condition of the governing securitisation documentation and all of the cash is initially pledged to pay the non-recourse debt

(b) (iii)Derivative assets

All derivative assets on hand at the year end were held with a related undertaking This entity does not have an individual credit rating, however is part of a large group, which is rated by Moodys as (P-1/A-2) and Standard & Poors as (A-2/BBB+) The existence of this derivative, which eliminates all interest rate risk from this entity, is a requirement of the governing documents for the original securitisation

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Notes *(continued)*

16 Financial risk management *(continued)*

(c) Liquidity risk

The tables below analyse the gross cash flows arising on the company's assets and liabilities by remaining contractual maturity at 31 December 2009 and 2008

At 31 December 2009

Assets	Carrying amount £'000	Gross contractual cash flow £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Cash – restricted	27,677	27,677	27,677	-	-	-	-
Derivative assets	2,140	2,195	36	71	320	1,768	-
Loans and advances to customers	86,955	100,274	475	948	4,258	22,466	72,127
Prepayments	9	9	9	-	-	-	-
Total assets	116,781	130,155	28,197	1,019	4,578	24,234	72,127
Liabilities							
Bank loans	19,000	19,000	19,000	-	-	-	-
Non-recourse funding	88,194	97,172	433	864	3,882	20,521	71,472
Current tax liability	3	3	-	-	3	-	-
Deferred tax liability	376	376	10	19	87	260	-
Accruals and deferred income	8,110	8,110	8,110	-	-	-	-
Total liabilities	115,683	124,661	27,553	883	3,972	20,781	71,472
Net cash flows	-	5,494	644	136	606	3,453	655

At 31 December 2008

Assets	Carrying amount £'000	Gross contractual cash flow £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000
Cash – restricted	8,966	8,966	8,966	-	-	-
Derivative assets	1,145	1,224	10	20	92	1,102
Loans and advances to customers	93,535	105,875	1,150	2,293	10,265	92,167
Current tax asset	2	2	-	-	2	-
Prepayments	4	4	4	-	-	-
Total assets	103,652	116,071	10,130	2,313	10,359	93,269
Liabilities						
Non-recourse funding	93,863	110,576	1,273	2,538	11,345	95,420
Deferred tax liability	319	319	3	5	8	303
Accruals and deferred income	8,527	8,526	8,526	-	-	-
Total liabilities	102,709	119,421	9,802	2,543	11,353	95,507
Net cash flows	-	(3,350)	328	(230)	(994)	(2,238)

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Notes *(continued)*

16 Financial risk management *(continued)*

(d) *Interest rate risks*

The table below summarises the interest rate re-pricing profiles of the company's interest bearing financial assets and liabilities

As at 31 December 2009

	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank – restricted	27,677		-	-		-	-	-	27,677
Loans and advances to customers	66,655	6,907	12,805	197	175	216	-	-	86,955
Derivative asset	35	69	312	456	439	425	404	-	2,140
Total financial assets	94,367	6,976	13,117	653	614	641	404	-	116,772
Impact of interest rate swap	22,405	(6,976)	(13,117)	(653)	(614)	(641)	(404)	-	
Financial assets after interest rate swap	116,772	-	-	-		-	-	-	116,772
Bank loans & overdrafts	(19,000)	-	-	-	-		-	-	(19,000)
Non-recourse funding	(88,194)	-	-	-	-		-	-	(88,194)
Total financial liabilities	(107,194)	-	-	-			-	-	(107,194)
Net interest repricing gap	9,578	-	-	-	-		-	-	9,578
Cumulative repricing gap	9,578	9,578	9,578	9,578	9,578	9,578	9,578	9,578	9,578

As at 31 December 2008

	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank – restricted	8 966		-		-			-	8,966
Loans and advances to customers	50 062	11,624	9 762	21 458	215	183	231		93 535
Derivative asset	65	131	589	360			-	-	1 145
Total financial assets	59 093	11 755	10 351	21 818	215	183	231	-	103 646
Impact of interest rate swap	44 553	(11 755)	(10 351)	(21 818)	(215)	(183)	(231)	-	
Financial assets after interest rate swap	103 646		-		-		-	-	103 646
Non-recourse funding	(93 863)		-		-		-	-	(93 863)
Total financial liabilities	(93 863)		-				-	-	(93 863)
Net interest repricing gap	9 783		-					-	9 783
Cumulative repricing gap	9 783	9 783	9 783	9 783	9 783	9 783	9 783	9 783	9 783

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Notes *(continued)*

16 Financial risk management *(continued)*

(e) Currency risk

The company is not exposed to any significant currency risk as all of its financial assets and liabilities are denominated in sterling

(f) Sensitivity analysis

Because of the interest rate swap structure in place, any movement in interest rates should have no material effect on the company's statement of comprehensive income because the net impact of the swap is to remove all interest rate risk from the company Additionally, as noted elsewhere in these accounts the company is not exposed to currency risk

17 Other financial commitments

Restricted cash balances

Cash balances held includes restricted cash balances to the value of £27 7m *(2008 £9.0m)*, which must be primarily utilised to make payments due on the company's non-recourse funding in priority to any other use

18 Ultimate parent undertaking

The company is directly owned by a charitable trust It was established by a contract as part of an individual mortgage securitisation This contract governs the relationship between Capital Home Loans, the mortgage originator, Irish Life & Permanent plc, Capital Home Loan's ultimate parent undertaking, and Auburn Securities 3 plc, whose activities are precisely defined in the relevant legal documents The entity's results have been consolidated within the financial statements of Irish Life & Permanent plc, a company incorporated in the Republic of Ireland A copy of the consolidated group financial statements and annual report may be obtained from the following address Irish Life Centre, Lower Abbey Street, Dublin 1, Republic of Ireland

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Notes *(continued)*

19 Related party transactions

The company has a related party relationship with Capital Home Loans Limited and its ultimate parent undertaking, Irish Life & Permanent plc and its directors as more fully explained in note 18 The directors undertook no transactions directly with the company during the year

The company undertook the following transactions with Capital Home Loans Limited in the year

	During year ended 31 December 2009 £'000	**As at 31 December 2009 £'000**	**During year ended 31 December 2008 £'000**	**As at 31 December 2008 £'000**
Loans and advances to customers	**2,297**	**86,955**	6,005	93,535
Deferred consideration due	**(431)**	**(7,879)**	(891)	(8,148)
Interest swap amounts due	**(224)**	**(30)**	686	(1)
Other administrative expenses paid	**(22)**	**(13)**	(44)	(12)

20 Significant judgements/estimates made by management

Significant judgements and estimates made by the company which have a significant impact on the financial statements include

Significant estimate	**Key details**
Loan loss provisioning	details set out in note 1
Valuation of interest rate swaps	The timing of expected cash-flows from the interest rate swaps is dependent on expected cash-flows from the securitised mortgage book These estimates drive the fair value of the derivatives held for trading and the key underlying assumptions in arriving at this fair value are set out in note 15
Fair value of financial instruments	details set out in note 15

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Auburn Securities 3 plc

Notes *(continued)*

21 Segment reporting

The company's principal business is the provision of residential and buy-to-let mortgages secured on properties in the United Kingdom All of the associated net results and assets are located in the United Kingdom and are derived from this business which are managed on a unified basis The company accordingly considers that it operates in one segment and that there are no separate reportable segments for which additional segment disclosures are required

22 Approval of financial statements

The board of directors approved these financial statements on 1 April 2010