KPMG

Auburn Securities 4 plc

Directors' report and financial statements

Year ended 31 December 2007

Registered number 5183076

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Auburn Securities 4 plc

Directors' report and financial statements

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Directors and other information

Directors	M Filer M McDermott 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 1000 London E14 5HP
Solicitors	TLT Solicitors One Redcliff Street Bristol BS99 7JZ
Auditor	KPMG Chartered Accountants 1 Stokes Place St Stephen's Green Dublin 2
Registered office	c/o Wilmington Trust SP Services (London) Limited Tower 42 (level 11) 25 Old Broad Street London EC2N 1HQ

Auburn Securities 4 plc

Directors' report

The directors present their directors' report and audited financial statements for the year ended 31 December 2007

Principal activities, business review and future developments

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

The company was established in 2004 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") As part of this transaction, the company purchased a mortgage book and raised third party debt Capital Home Loans Limited is, under International Financial Reporting Standards, not permitted to de-recognise the Auburn Securities 4 plc securitised assets, and accordingly, Auburn Securities 4 plc instead recognises an amount owing from Capital Home Loans in respect of the assets securitised. This reflects the actual disposal of the mortgage assets to Auburn Securities 4 plc and their continued recognition by the mortgage originator Capital Home Loans is obliged to continue to recognise these assets primarily because it retains significant risks and rewards associated with the mortgages – principally through its entitlement to ongoing deferred consideration payable from the net profits arising from the securitised assets, after any loan note obligations are met The company, however, continues to recognise income and cash-flows equivalent to the income and cash-flows from the underlying mortgage book Capital Home Loans also continues to administer the mortgage book and loan notes on behalf of the company and further details of this relationship are set out in note 18

Key risks and uncertainties faced by the company are outlined in note 15, 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 15

Results and dividends

Details of the results for the year are set out in the income statement on page 12 and in the related notes No dividends have been paid or proposed for either of the 2007 or 2006 fiscal years

Directors

The following directors have held office since 1 January 2007

M Filer
M McDermot
Wilmingston 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, 1985

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 1985 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 enable them to ensure that its financial statements comply with the Companies Act 1985 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

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

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Directors' report *(continued)*

Auditor

In accordance with Section 384 of the Companies Act 1985, 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

Sunil Masson
Authorised Signatory

Wilmington Trust SP Services (London) Limited
Secretary

17 April 2008

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

Report of the independent auditor to the members of Auburn Securities 4 plc

We have audited the financial statements of Auburn Securities 4 plc for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes (the "financial statements") These financial statements have been prepared under the accounting policies as set out therein

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 the independent auditor

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements given a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements in it

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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

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Report of the independent auditor to the members of Auburn Securities 4 plc
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 1985, of the state of the company's affairs as at 31 December 2007 and of its results for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the director's report is consistent with the financial statements

KPMG

17 April 2008

Chartered Accountants
Registered Auditor

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Auburn Securities 4 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 company's balance sheet date

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 4 plc is a company incorporated in the United Kingdom Its 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 2007 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 receivables 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 19

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 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 balance sheet or in the cash flow statement

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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 income statement Substantially all of the company's loans and advances were originated in a securitisation transaction from a related undertaking, Capital Home Loans – however Capital Home Loans did not derecognise those assets on the transaction as it was deemed to have retained control of the underlying assets Accordingly Auburn Securities 4 plc has recognised equivalent loans and advances due from Capital Home Loans to the extent of its continued involvement with these assets, and in particular, reflecting its right to receive certain cash flows from those underlying mortgage advances securitised

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 balance sheet

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 income statement 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 income statement

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 income statement 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 balance sheet at fair value Subsequent movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the policy for that class of financial instrument

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Accounting policies *(continued)*

Derivatives *(continued)*

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 14

Segment reporting

A segment is a distinguishable component of the company that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) 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 income statement

Operating leases

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

Securitised assets and associated non recourse funding

Capital Home Loans has entered into funding arrangements to finance specific loans and advances it had originated to customers via Auburn Securities 4 plc Because Capital Home Loans retains a substantial element of the risks and rewards associated with such mortgages following their securitisation, primarily through its entitlement to residual profits after the loan note holders have been paid, these assets do not qualify for de-recognition from Capital Home Loan's financial statements Accordingly, Auburn Securities 4 plc records an amount owing from Capital Home Loans, equal to the balance of securitised mortgage assets, to reflect the original transfer transaction and the extent of its continuing involvement in those assets The cash flows from this asset exactly mirror the cash flows of the securitised mortgage book and the company continues to record these as it is legally entitled to under the terms of the asset securitisation The result of this is that the securitised assets are recorded as an amount due from the mortgage originator and the accounting policy set out above on loans and advances is applied to these assets Any related funding raised has been recorded as a liability to the loan note holders in these financial statements also as these continue to reflect the company's own obligation to the loan note holders

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Accounting policies *(continued)*

Income tax expense

Income tax expense comprises both current and deferred tax Income tax is recognised in the income statement 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

Interest receivable and payable

Interest income and expenses are recognised in the income statement 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

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 2007, and have not been applied in preparing these financial statements

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Accounting policies *(continued)*

New standards and interpretations not yet adopted *(continued)*

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting IFRS 8, which becomes mandatory for the company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them Currently the company considers that there are no separate reportable segments for which additional segment disclosures are required (see note 20) IFRS 8 is, accordingly, not expected to have any material impact on the financial statements

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset The revised IAS 23 will become mandatory for the company's 2009 financial statements and is not expected to have a material effect on the financial statements

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained IFRIC 11 will become mandatory for the company's 2008 financial statements, with retrospective application required It is not expected to have any impact on the financial statements

- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements IFRIC 12, which becomes mandatory for the company's 2008 financial statements, is not expected to have any effect on the financial statements

Deferred consideration

Under the terms of an agreement between the company and a related undertaking, Capital Home Loans Limited, 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 cashflows due to Capital Home Loans

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Income statement
for year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Interest income	*1*	**41,887**	46,238
Interest expense	*2*	**(34,741)**	(37,468)
Net interest income - continuing operations		**7,146**	8,770
Operating expenses		**(7,553)**	(8,690)
Impairment credits/(losses) on loans and receivables	*5*	**18**	(70)
(Loss)/profit before tax – continuing operations	*3*	**(389)**	10
Income tax credit	*4*	**86**	373
(Loss)/profit for the year – attributable to equity holders	*13*	**(303)**	383

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Balance sheet
at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Cash at bank – restricted	*16*	**25,516**	31,296
Prepayments and accrued income	*7*	**5**	4
Current tax asset	*9*	**33**	-
Derivative asset	*11*	**3,488**	3,891
Loans and advances to customers	*5*	**459,539**	631,723
Total assets		**488,581**	666,914
Liabilities			
Non-recourse funding	*8*	**468,339**	645,171
Current tax liability	*9*	**-**	3
Deferred tax liability	*6*	**681**	730
Accruals and deferred income	*10*	**16,682**	17,828
Total liabilities		**485,702**	663,732
Shareholders' equity			
Issued share capital	*12*	**12**	12
Retained earnings	*13*	**2,867**	3,170
Total equity	*13*	**2,879**	3,182
Total liabilities and equity		**488,581**	666,914

The financial statements on pages 7 to 37 were approved by the board of directors on 17/4/2008 and signed on its behalf by

Sunil Masson
Authorised Signatory

Wilmington Trust SP Services (London) Limited
Director

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Auburn Securities 4 plc

Statement of recognised income and expense
for the year ended 31 December 2007

	2007 **£'000**	2006 £'000
Total recognised income & expense for year	**(303)**	383
Attributable to equity shareholders	**(303)**	383

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Cash flow statement
for the year ended 31 December 2007

	2007 £'000	2006 £'000
Cashflows from operating activities		
(Loss)/profit before tax for year	**(389)**	10
Adjustments for:		
(Increase)/decrease in assets		
Loans and advances to customers	**172,184**	173,715
Prepayments and accrued income	**(1)**	(3)
Derivative assets	**403**	8
Increase/(decrease) in liabilities		
Accruals and deferred income	**(1,145)**	3,832
Non-recourse funding	**(176,832)**	(183,310)
Corporation tax paid	**-**	(33)
Subordinated debt	**-**	(4,296)
Net cashflows arising from operating activities	**(5,780)**	(10,077)
Cashflows from financing activities		
Divestiture of restricted cash	**5,780**	10,077
Movement in cash and cash equivalents	**-**	-

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Notes

forming part of the financial statements

1 Interest income

	2007 £'000	2006 £'000
Mortgage interest receivable	**34,276**	40,761
Deposit interest receivable	**1,499**	1,223
Other income	**786**	747
On interest rate swaps	**5,326**	3,507
	41,887	46,238

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

2 Interest expense

	2007 £'000	2006 £'000
On mortgage backed loan notes	**34,290**	36,907
Amortisation of initial funding costs	**451**	451
On subordinated loan	**-**	110
	34,741	37,468

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Notes *(continued)*

3 Profit before tax – continuing operations

	2007 **£'000**	2006 £'000
Included within profit before tax are the following		
Auditors' remuneration.		
Audit fee	**9**	9
Other non-audit work	**2**	14
Deferred consideration	**6,795**	8,208
Fair value (loss)/gain on interest rate swaps	**(403)**	459

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

4 Income tax (credit)

	2007 **£'000**	2006 £'000
Corporation tax at 20% *(2006 19%)*	**(37)**	4
Deferred tax (see note 6)	**(49)**	(377)
Total income tax credit	**(86)**	(373)

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Auburn Securities 4 plc

Notes *(continued)*

4 Income tax expense *(continued)*

Reconciliation of effective tax charge	**2007** **£'000**	2006 £'000
The tax assessed for the period is lower than the standard rate of corporation tax in the United Kingdom of 20% for companies of a certain size The differences are explained below·		
(Loss)/profit before taxation	**(389)**	10
(Loss)/profit before taxation by standard rate of corporation tax in UK of 20% *(2006 19%)*	**(78)**	2
Adjustment in respect of over provision in prior year	**-**	(375)
Other adjustments	**(8)**	-
Effective tax credit in year	**(86)**	(373)

5 Loans and advances to customers

	2007 **£'000**	2006 £'000
Loans and advances to customers	**460,346**	632,852
Less impairment provisions – see below	**(807)**	(1,129)
All represented by residential mortgages in the UK	**459,539**	631,723

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Notes *(continued)*

5 Loans and advances to customers *(continued)*

In October 2004, the company purchased the rights to certain cashflows from £995 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 IFRS rules, these assets are classified as amounts owed from Capital Home Loans, and the original mortgage assets are not de-recognised by the originator However, the loan loss assessment and actual cash flows occur as if the securitised book were entirely recognised by Auburn Securities 4 plc, (to the extent of its continuing involvement in the loan book)

Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the 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 related 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 14 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 15

Impairment losses on loans and advances

	2007	2006
	£'000	£'000
Balance at start of year	**1,129**	1,275
(Credited)/ charged to income statement	**(18)**	70
Write off in year	**(304)**	(216)
Balance at end of year	**807**	1,129

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

Interest income recognised on impaired financial assets amounted to £0 5m in 2007 *(2006 £0 3m).*

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Notes *(continued)*

6 Deferred tax assets and liabilities

	2007 £'000	2006 £'000
Deferred tax assets		
At start of year	-	63
(Charged) in year (see note 4)	-	(63)
At end of year	-	-
Deferred tax liabilities		
At start of year	**(730)**	(1,170)
Credited in year (see note 4)	**49**	440
At end of year	**(681)**	(730)

The deferred tax liability shown above principally arises from a temporary difference between the accounting and tax bases for certain derivative positions held

7 Prepayments and accrued income

	2007 £'000	2006 £'000
Other debtors	**5**	4

All amounts fall due within one year

8 Non-recourse funding

	2007 £'000	2006 £'000
Mortgage backed loan notes	**469,128**	646,411
Less unamortised element of initial funding costs	**(789)**	(1,240)
	468,339	645,171

On 11 October 2004, the company issued approximately £1 billion in mortgage backed loan notes in order to fund the purchase of a mortgage portfolio

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Notes *(continued)*

8 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

£1 billion mortgage backed loan notes	**Balance outstanding at end of year £'000**	**Up to October 2009**	**After October 2009**
Class A1 (£270 million)	Nil	LIBOR + 0 12%	LIBOR + 0 24%
Class A2 (£597 5 million)	336,628	LIBOR + 0 2%	LIBOR + 0 4%
Class M (£15 million)	15,000	LIBOR + 0 25%	LIBOR + 0 5%
Class B (£40 million)	40,000	LIBOR + 0 35%	LIBOR + 0 70%
Class C (£40 million)	40,000	LIBOR + 0 65%	LIBOR + 1 65%
Class D (£25 million)	25,000	LIBOR + 1 05%	LIBOR + 2 05%
Class E (£12 5 million)	12,500	LIBOR + 3 20%	LIBOR + 4 20%

The A1 notes are fully repaid and the A2 notes ("the senior notes") rank pari passu in point of payment and security without preference or priority amongst themselves but ahead of the remaining notes The senior notes rank in priority to the M, B, C, D and E notes in point of payment and security

Optional redemption

Auburn Securities 4 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 October 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

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Notes *(continued)*

9 Current tax (asset) liability

	2007 £'000	2006 £'000
(Recoverable)/payable within one year	**(33)**	3

10 Accruals and deferred income

	2007 £'000	2006 £'000
Deferred consideration due to Capital Home Loans Limited	**14,695**	14,822
Accruals and deferred income	**1,987**	3,006
	16,682	17,828

11 Derivative financial instruments

	Contract/ fair value 2007 £'000	Notional amount 2007 £'000	Contract/ fair value 2006 £'000	Notional amount 2006 £'000
Derivative assets				
Interest rate swaps with Capital Home Loans Limited	**3,488**	**460,346**	3,891	632,852

The above interest rate swaps are treated as held for trading in Auburn Securities 4 plc and the movement in fair value for these swaps has been accounted for within other operating expenses

12 Called up share capital

	2007 £'000	2006 £'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

Notes *(continued)*

13 Reconciliation of movement in shareholders' equity

31 December 2007	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
At beginning of year	12	3,170	3,182
Changes to equity for 2007			
Loss on ordinary activities after taxation	-	(303)	(303)
Total shareholders' equity	12	2,867	2,879

31 December 2006	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
At beginning of year	12	2,787	2,799
Changes to equity for 2006			
Profit on ordinary activities after taxation	-	383	383
Total shareholders' equity	12	3,170	3,182

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Notes *(continued)*

14 Fair values of financial instruments

	2007			
	At amortised cost		At fair value through income statement	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Assets				
Cash at bank – restricted	25,516	25,516	-	-
Loans and advances to Customers	459,539	457,069	-	-
Derivative assets	-	-	3,488	3,488
	485,055	482,585	3,488	3,488
Liabilities				
Non-recourse funding	468,339	468,339	-	-
Deferred consideration	14,695	14,695	-	-
	483,034	483,034	-	-

	2006			
	At amortised cost		At fair value through income statement	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Assets				
Cash at bank – restricted	31,296	31,296	-	-
Loans and advances to Customers	631,723	629,400	-	-
Derivative assets	-	-	3,891	3,891
	663,019	660,696	3,891	3,891
Liabilities				
Non-recourse funding	645,171	645,171	-	-
Deferred consideration	14,822	14,822	-	-
	659,993	659,993	-	-

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Notes *(continued)*

14 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 group and 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 The value of the variable rate mortgage book is assumed to broadly equate to fair value because it is re-set to market rates on a regular basis
- The fair value of non-recourse funding and subordinated debt is broadly equal to its carrying value because all of the debt is repriced regularly to the prevailing variable interest rate
- 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 2 years
    - Discount rate 5 61%
    - Estimated credit losses £Nil
    - Assumed redemption rate 20%

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 income statement in relation to this fair value estimate in the year was £0 4m loss *(2006 £0 5m 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)*

15 Financial risk management

(a) *Introduction and overview*

The company's financial instruments comprise amounts due from Capital Home Loans (which are backed by equivalent mortgage assets held by Capital Home Loans), 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 with Capital Home Loans 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 Because the company's loan book was largely originated by Capital Home Loans, a related entity, and then sold to this entity, 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. This risk is managed within a framework determined by Irish Life & Permanent plc's (the company's ultimate parent undertaking – "IL&P") Assets & Liabilities Committee, however on a day to day basis, 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 with Capital Home Loans, the mortgage book originator, 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 group'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 below reflects this

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Notes *(continued)*

15 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 Capital Home Loans' 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 and at least quarterly by Capital Home Loans' compliance department and also by IL&P's internal audit department

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 Policy responsibility for the management of market risk lies with the company's ultimate parent undertaking IL&P and this is managed operationally by key financial and operational management at Capital Home Loans, the company's administrator Interest rate risk management policies are separately documented above

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 Regular reports on liquidity are submitted to IL&P's ALCO and, where appropriate, to the independent trustee of the company's loan notes and to the relevant regulatory authorities

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 with Capital Home Loans Limited which effectively transfer interest rate risk associated with the securitised asset portfolios back to the originator, Capital Home Loans 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)*

15 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

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Notes *(continued)*

15 Financial risk management *(continued)*

(b) Credit risk

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

	2007 £'000	2006 £'000
Total carrying amount – maximum exposure to credit risk	**459,539**	631,723
Individually impaired (arrears > 3 months)	**6,770**	7,885
Allowance for impairment	**(780)**	(1,098)
Carrying amount	**5,990**	6,787
Collectively impaired	**15,261**	15,924
Allowance for impairment	**(27)**	(31)
Carrying amount	**15,234**	15,893

There were no other past due but not impaired loans and advances at either of December 2006 or 2007

	2007 £'000	2006 £'000
Neither past due nor impaired - carrying amount	**438,152**	609,043
Includes accounts with renegotiated terms	**163**	-
Total balance sheet value	**459,539**	631,723

All of the above loans which are neither past due nor impaired have no arrears arising thereon

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Notes *(continued)*

15 Financial risk management *(continued)*

(b) Credit risk (continued)

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

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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Auburn Securities 4 plc

Notes *(continued)*

15 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	
	2007	2006
	£'000	£'000
	Property	Property
Against collectively impaired	**1,226,387**	1,425,416
Against past due but not impaired	**18,977**	18,487
Against neither past due not impaired	**42,778**	37,203

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Notes *(continued)*

15 Financial risk management *(continued)*

(b) Credit risk(continued)

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

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

Loans and advances to customers

	2007	2006
	£'000	£'000
Concentration by sector – carrying amount		
Residential	**56,923**	98,643
Buy to let	**402,616**	533,080
	459,539	631,723
Concentration by location within the United Kingdom		
London & South East	**226,380**	316,526
North East	**35,171**	47,744
North East & North Wales	**33,097**	43,684
South East & South Wales	**92,375**	128,076
Midlands	**51,618**	67,963
Other	**20,898**	27,730
	459,539	631,723

(b) (ii) Restricted cash on hand

At the year end all of the restricted cash on hand was held with one financial institution counterparty in the UK with a credit rating of AA 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 Capital Home Loans Limited, a related undertaking This entity does not have an individual credit rating, however is part of the Irish Life & Permanent plc group, which is rated by Moodys as AA3/PI and Standard & Poors as A+/A-1 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)*

15 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 2007 and 2006.

At 31 December 2007

Assets	Carrying amount £'000	Gross contractual cashflow £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000
Cash – restricted	25,516	25,516	25,516	-	-	-
Loans and advances to customers	459,539	538,355	10,212	20,340	91,146	416,657
Current tax asset	33	33	-	-	33	-
Derivative asset	3,488	3,731	241	482	2,169	839
Prepayments	5	5	-	1	4	-
Total assets	**488,581**	**567,640**	**35,969**	**20,823**	**93,352**	**417,496**
Liabilities						
Non-recourse funding	468,339	570,299	497,563	4,789	21,188	46,759
Deferred tax liability	681	681	44	88	396	153
Accruals and deferred income	16,682	16,682	2,637	1,300	5,850	6,895
Total liabilities	**485,702**	**587,662**	**500,244**	**6,177**	**27,434**	**53,807**
Net cash flows	-	**(20,022)**	**(464,275)**	**14,646**	**65,918**	**363,689**

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Notes *(continued)*

15 Financial risk management *(continued)*

(c) Liquidity risk (continued)

At 31 December 2006

Assets	**Carrying amount £'000**	**Gross contractual cashflow £'000**	**Up to 1 month £'000**	**1 to 3 months £'000**	**3 to 12 months £'000**	**1 to 5 years £'000**
Cash – restricted	31,296	31,296	31,296	-	-	-
Loans and advances to customers	631,723	716,872	524,247	14,289	46,913	131,423
Derivative assets	3,891	3,891	183	365	1,642	1,701
Prepayments	4	4	-	1	3	-
Total assets	**666,914**	**752,063**	**555,726**	**14,655**	**48,558**	**133,124**
Liabilities						
Non-recourse funding	645,171	756,566	536,019	13,858	81,025	125,664
Current tax liability	3	3	-	-	3	-
Deferred tax liability	730	730	54	109	489	78
Accruals and deferred income	17,828	17,828	3,655	1,300	5,850	7,023
Total liabilities	**663,732**	**775,127**	**539,728**	**15,267**	**87,367**	**132,765**
Net cash flows	**-**	**(23,064)**	**15,998**	**(612)**	**(38,809)**	**359**

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Notes *(continued)*

15 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 2007

	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	25,516	-	-	-	-	-	-	-	25 516
Loans and advances to customers	205 609	3,289	89,082	114,405	46 362	560	232	-	459 539
Total financial assets	231 125	3,289	89 082	114,405	46 362	560	232	-	485,055
Impact of interest rate swap	253 930	(3,289)	(89 082)	(114,405)	(46,362)	(560)	(232)	-	-
Financial assets after interest rate swap	485 055	-	-	-	-	-	-	-	485,055
Non recourse funding	(468,339)	-	-	-	-	-	-	-	(468 339)
Total financial liabilities	(468 339)	-	-	-	-		-	-	(468,339)
Net interest repricing gap	16,716	-	-	-	-	-	-	-	16,716
Cumulative repricing gap	16,716	16 716	16,716	16 716	16,716	16 716	16,716	16 716	16 716

As at 31 December 2006

	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	31 296	-	-	-	-	-	-	-	31 296
Loans to advances to customers	371 544	14,929	57 849	107,096	78,680	523	1 102	-	631 723
Total financial assets	402 840	14,929	57 849	107 096	78 680	523	1 102	-	663,019
Impact of interest rate swap	260 179	(14 929)	(57 849)	(107 096)	(78 680)	(523)	(1 102)	-	-
Financial assets after interest rate swap	663 019	-	-	-	-	-	-	-	663,019
Non-recourse funding	(645,171)	-	-	-	-		-	-	(645,171)
Total financial liabilities	(645 171)	-	-	-	-	-	-		(645 171)
Net interest repricing gap	17 848	-	-	-	-	-	-	-	17 848
Cumulative repricing gap	17,848	17 848	17 848	17 848	17 848	17,848	17 848	17 848	17,848

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Notes *(continued)*

15 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 with Capital Home Loans, any movement in interest rates should have no effect on the company's income statement 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

16 Other financial commitments

Restricted cash balances

Cash balances held includes restricted cash balances to the value of £25 5m *(2006 £31 3m)*, which must be primarily utilised to make payments due on the company's non-recourse finding in priority to any other use

17 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 4 plc, whose activities are precisely defined in the relevant legal documents Capital Home Loans is the primary beneficiary of the Auburn Securities 4 plc mortgage securitisation and as such it has the power to indirectly govern the financial and operating policies of the company so as to obtain benefit from its activity Accordingly, this entity has been consolidated within the Capital Home Loans consolidated financial statements, which are in turn, 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)*

18 Related party transactions

The group 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 17 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 2007 £'000	**As at 31 December 2007 £'000**	**During year ended 31 December 2006 £'000**	**As at 31 December 2006 £'000**
Loans and receivables to customers	**34,276**	**459,539**	40,761	631,723
Deferred consideration due	**(6,795)**	**(14,695)**	(8,208)	(14,822)
Interest swap amounts due	**(5,326)**	**747**	(3,507)	322
Other administrative expenses paid	**(42)**	**(4)**	(42)	(4)

19 Significant judgements/estimates made by management

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

Significant estimate	**Key details**
Loan loss provisioning	details set out in note 15
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 14

20 Segment reporting

The company's principal business is holding rights to a securitised mortgage portfolio, the funds from which are utilised principally to repay non-recourse finance raised All of the associated net results and assets are located in the United Kingdom and are derived from this single portfolio, which largely comprises buy to let mortgages with individual customers The company accordingly considers that it operates in both a single business and geographic segment and that there are no separate reportable segments for which additional segment disclosures are required

21 Approval of financial statements

The board of directors approved these financial statements on 17 April 2008