Auburn Securities 4 plc

Directors' report and
financial statements

Year ended 31 December 2012

Registered number 5183076

Auburn Securities 4 plc

Directors' report and financial statements

Contents | *Page*

Auburn Securities 4 plc

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
London
EC14 5HP

Solicitors

Rosling King LLP
10 Old Bailey
London
EC4M 7NG

Auditor

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

Registered office

c/o Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London EC2R 7AF

Auburn Securities 4 plc

Directors' report

The directors present their directors' report and audited financial statements for the year ended 31 December 2012

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 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 17

It is expected that the company will continue to have sufficient cash inflows from its current cash resources and its mortgage book to meet its ongoing obligations, in particular for its senior non-recourse debt providers However, the company's mortgage servicer, Capital Home Loans and its parent undertaking, Permanent TSB Group Holdings plc (PTSBGH) continues to incur losses and to be dependent on Monetary Authority financial support in Ireland Additionally, PTSBGH has submitted a restructuring plan outlining the actions required to ensure the bank's long term viability to the European Commission, which has not yet been approved but which the directors are hopeful will be approved during 2013 To the extent that these issues continue, Capital Home Loans may be unable to continue to service the company's assets and may otherwise be unable to provide other support to the company However, at present it is the PTSBGH director's expectation that there will be continued availability of funding for the Group, based on discussions with the Irish state authorities and on various announcements made by the ECB, the IMF and the Irish Minister for Finance and consequently, based on this, the directors of the company consider it appropriate to continue to prepare the financial statements on a going concern basis

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 statement of comprehensive income on page 13 and in the related notes No dividends have been paid or proposed for either of the 2012 or 2011 financial years

Directors

The following directors have held office since 1 January 2012

M Filer
M McDermott
Wilmington Trust SP Services (London) Limited

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 financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

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 applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 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

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

Auburn Securities 4 plc

Directors' report *(continued)*

Auditor

KPMG, Chartered Accountants and Registered Auditor, will continue in office until the conclusion of the company's next Annual General Meeting The board has proposed that PricewaterhouseCoopers ("PwC"), Chartered Accountants and Registered Auditor will be appointed as the company's independent auditor from the conclusion of this meeting

On behalf of the board

Mark Filer

Wilmington Trust SP Services (London) Limited
Secretary

7 May 2013

Independent auditor's report 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 2012 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 auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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, and express an opinion on, 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

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

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 2012 and of the loss 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

Independent auditor's report to the members of Auburn Securities 4 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

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made within the Basis of Preparation note within the Statement of Accounting Policies concerning the company's ability to continue as a going concern These disclosures set out the progress made by the company's servicer and mortgage originator (CHL) and its parent undertaking (PTSBGH) during 2012, including the strategic planning review carried out for PTSBGH and the submission of a restructuring plan to the Directorate General for Competition for the European Commission in June 2012 However, these disclosures also refer to the ongoing requirement for the company's servicer to continue to access funding from the Eurosystem and the requirement for the restructuring plan to be approved by the European Commission These conditions, as explained in the Basis of Preparation note, indicate the existence of a material uncertainty which may cast significant doubt about the company's servicer, and consequently Auburn's ability, to continue as a going concern The financial statements do not include adjustments that would result if the company was unable to continue as a going concern

P Carroll *(Senior Statutory Auditor)* 7 May 2013
For and on behalf of KPMG, Statutory Auditor
Chartered Accountants
1 Stokes Place
St Stephen's Green
Dublin 2
Ireland

Statement of 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 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 2012 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 19

It is expected that the company will continue to have sufficient cash inflows from its current cash resources and its mortgage book to meet its ongoing obligations, in particular for its senior non-recourse debt providers However, the company's mortgage servicer, Capital Home Loans and its parent undertaking, Permanent TSB Group Holdings plc (PTSBGH) continues to incur losses and to be dependent on Monetary Authority financial support in Ireland Additionally, PTSBGH has submitted a restructuring plan outlining the actions required to ensure the bank's long term viability to the European Commission, which has not yet been approved but which the directors are hopeful will be approved during 2013 To the extent that these issues continue, Capital Home Loans may be unable to continue to service the company's assets and may otherwise be unable to provide other support to the company However, at present it is the PTSBGH director's expectation that there will be continued availability of funding for the Group, based on discussions with the Irish state authorities and on various announcements made by the ECB, the IMF and the Irish Minister for Finance and consequently, based on this, the directors of the company consider it appropriate to continue to prepare the financial statements on a going concern basis

Statement of accounting policies *(continued)*

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

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 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 reporting 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

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

Statement of accounting policies *(continued)*

Derivatives *(continued)*

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 14

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

Auburn Securities 4 plc

Statement of accounting policies *(continued)*

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 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 2012

There were no new accounting standards applied during the year

New standards and interpretations not yet adopted

The following standards, interpretations and amendments to standards may be relevant to the company but are not effective at 31 December 2012 and therefore, have not been applied to preparing these financial statements The company's initial view of the impact of these accounting changes is outlined below

Title	Impact on company financial statements	Effective date
IAS 1 Presentation of Financial Statements (amendments) (endorsed by the EU)	This amendment requires entities to group together items in other comprehensive income based on whether they can be reclassified to the income statement The amendment also preserves the existing requirement for profit and loss and other comprehensive income to be presented together rather than a single continuous statement as was proposed in the exposure draft This amendment will not result in a material impact in the financial statements of the company	01-July-12

Statement of accounting policies *(continued)*

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

Title	Impact on company financial statements	Effective date
IFRS 7 Financial instruments – Disclosures (endorsed by the EU) and IAS 32 Financial instruments – Presentation (amendment) (endorsed by the EU)	This amendment to IFRS 7 requires more disclosures focused on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting, irrespective of whether they are offset or not The amendment to IAS 32 is that the right to offset must not be contingent on a future event and must also be legally enforceable in the event of a default, insolvency or bankruptcy This amendment will not result in a material impact in the financial statements of the company	01-Jan-13 (IFRS 7) 01-Jan-14 (IAS 32)
IFRS 13 Fair value measurements (endorsed by the EU)	IFRS 13 defines fair value and explains how to measure fair value under a three level hierarchy, based on type of inputs to the valuation techniques used The guidance also requires additional disclosures in relation to all assets and liabilities measured at fair value IFRS 13 will not result in a material impact in the financial statements of the company	01-Jan-14
IAS 27 Separate Financial Statements (revised) (endorsed by the EU)	As a consequence of the new IFRS 10 and IFRS 12, IAS 27 has been revised to only deal with the provisions on separate financial statements This revision will not result in a material impact in the financial statements of the company	01-Jan-14
IAS 28 Investments in Associates and Joint ventures (revised) (endorsed by the EU)	As a consequence of the new IFRS 11 and IFRS 12, IAS 28 is revised to set out the requirement for the equity method when accounting for investments in associates and joint ventures The standard defines significant influence , provides guidance on how the equity should be tested for impairment This revision will not result in a material impact in the financial statements of the company	01-Jan-14
IFRS 9 Financial Instruments (amendment) (not yet endorsed by the EU)	IFRS 9 will replace IAS 39 Financial instrument Classification and Measurement and consists of Financial Assets The multiple classification model for financial assets from IAS 39 is replaced with only two classification categories, amortised cost and fair value IFRS 9 introduces a two step classification approach which involves the entity considering its business model and the contractual cash flow characteristics of the financial asset hosts and cost exemption for unquoted entities no longer applies	01-Jan-15
	Financial Liabilities IFRS 9 does not change the accounting for financial liabilities from IAS 39 The requirement to separate embedded derivatives from financial liabilities hosts remain If an entity chooses to measure a liability at fair value through profit or loss, the portion of the change in fair value related to changes in the entity's own credit risk is presented in the statement of other comprehensive income rather than within profit or loss The company will assess the impact of IFRS 9 when it is endorsed by the EU	01-Jan-15

Auburn Securities 4 plc

Company registered number 05183076

Statement of financial position
at 31 December 2012

	Note	2012 £'000	2011 £'000
Assets			
Cash at bank – restricted	*16*	**101,758**	64,375
Derivative asset	*2*	**2,885**	3,533
Loans and advances to customers	*1*	**342,753**	358,277
Prepayments and accrued income	*3*	**10**	9
Deferred tax asset	*7*	**476**	389
Total assets		**447,882**	426,583
Liabilities			
Bank loans and overdrafts	*4*	**45,000**	-
Non-recourse funding	*5*	**349,319**	364,851
Accruals and deferred income	*6*	**55,003**	62,746
Total liabilities		**449,322**	427,597
Equity			
Share capital	*8*	**12**	12
Retained earnings	*9*	**(1,452)**	(1,026)
Total equity attributable to equity holders of the company	*9*	**(1,440)**	(1,014)
Total liabilities and equity		**447,882**	426,583

The financial statements on pages 7 to 39 were approved by the board of directors on 7 May 2013 and signed on its behalf by

Mark Filer

Wilmington Trust SP Services (London) Limited
Director

Auburn Securities 4 plc

Statement of comprehensive income

For year ended 31 December 2012

	Note	**2012 £'000**	2011 £'000
Interest income	*10*	**7,555**	7,948
Interest expense	*11*	**(6,016)**	(9,086)
Net interest income/(expense) - continuing operations		**1,539**	(1,138)
Operating expenses		**(1,531)**	(2,098)
Impairment losses on loans and advances	*1*	**(521)**	(407)
Loss before income tax – continuing operations	*12*	**(513)**	(3,643)
Income tax credit	*13*	**87**	953
Total comprehensive loss for the year	*9*	**(426)**	(2,690)
Loss attributable to the owners of the company		**(426)**	(2,690)

Auburn Securities 4 plc

Statement of changes in equity

For year ended 31 December 2012

31 December 2012	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at beginning of the year	**12**	**(1,026)**	**(1,014)**
Total comprehensive income for the year – (loss)	**-**	**(426)**	**(426)**
Balance at end of year	**12**	**(1,452)**	**(1,440)**

31 December 2011	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at beginning of the year	12	1,664	1,676
Total comprehensive income for the year – (loss)	-	(2,690)	(2,690)
Balance at end of year	12	(1,026)	(1,014)

Auburn Securities 4 plc

Cash flow statement
for the year ended 31 December 2012

	2012 £'000	2011 £'000
Cash flows from operating activities		
Loss before taxation for the year	**(513)**	(3,643)
Adjustments for:		
(Increase)/decrease in assets		
Loans and advances to customers	**15,524**	16,329
Prepayments and accrued income	**(1)**	2
Derivative assets	**648**	(166)
Increase/(decrease) in liabilities		
Non-recourse funding	**(15,532)**	(12,232)
Accruals and deferred income	**(7,743)**	9,725
Funding from financial institutions	**45,000**	-
Net cash from operating activities	**37,383**	10,015
Cash flows from financing activities		
Investment in restricted cash	**(37,383)**	(10,015)
	(37,383)	(10,015)
Net movement in cash and cash equivalents	**-**	-
Cash and cash equivalents at 1 January	**-**	-
Cash and cash equivalents at 31 December	**-**	-

Auburn Securities 4 plc

Notes
forming part of the financial statements

1 Loans and advances to customers

	2012	2011
	£'000	£'000
Loans and advances to customers	**343,719**	359,056
Less impairment provisions – see below	**(966)**	(779)
All represented by residential mortgages in the UK	**342,753**	358,277

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 Permanent TSB Group Holdings 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

Auburn Securities 4 plc

Notes *(continued)*

1 Loans and advances to customers *(continued)*

Impairment losses on loans and advances	**2012**	2011
	£'000	£'000
Balance at beginning of year	**779**	486
Charged to statement of comprehensive income	**521**	407
Amounts written off	**(334)**	(114)
Balance at end of year	**966**	779

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

	£'000	£'000
Specific provision	**758**	317
Collective provision	**208**	462
Balance at end of year	**966**	779

Interest income recognised on impaired financial assets amounted to £0 08m in 2012 *(2011 £0 07m)*

Notes *(continued)*

2 Derivative financial instruments

	Positive/ (negative) fair value 2012 £'000	Notional Amount 2012 £'000	Positive/ (negative) fair value 2011 £'000	Notional Amount 2011 £'000
Derivative assets				
Interest rate swaps with Capital Home Loans Limited	**2,885**	**342,753**	3,533	358,277

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 interest income

3 Prepayments and accrued income

	2012 £'000	2011 £'000
Other debtors	**10**	9

All amounts fall due within one year

4 Bank loans & overdrafts

	2012 £'000	2011 £'000
Amounts due to other banks and credit institutions	**45,000**	-

Key terms attaching to these amounts are included in notes 14 and 15

5 Non-recourse funding

	2012	2011
	£'000	£'000
Mortgage backed loan notes	**344,414**	359,868
Less unamortised element of initial funding costs	**(14)**	(63)
Plus adjustment to effective interest rate	**4,919**	5,046
	349,319	364,851

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 During 2009, the company opted to extend certain of its debt arrangements beyond the originally expected maturity, incurring an additional interest margin The effect of this has been reflected in the balance presented above as is required using the effective interest rate methodology prescribed by IAS 39

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 Permanent TSB 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**	**Post October 2009**
Class A1 (£270 million)	Nil	LIBOR + 0 12%	LIBOR + 0 24%
Class A2 (£597 5 million)	211,914	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 30%
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

5 Non-recourse funding *(continued)*

Optional redemption

Auburn Securities 4 plc may, at its option, redeem all (but not some only) of the notes at their principal amounts outstanding

(c) in the event of certain tax changes affecting the notes, the swap agreement or the mortgages comprising the mortgage pool at any time,

(d) on the interest payment date falling in October 2009 or any interest payment date falling thereafter,

(e) 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 Accruals and deferred income

	2012 £'000	2011 £'000
Deferred consideration	**12,502**	13,269
Amounts due to Capital Home Loans	**42,064**	48,810
Accruals and deferred income	**437**	667
	55,003	62,746

During 2011 and 2012, certain conditions relating to the credit rating of Permanent TSB plc were not met, and consequently additional cash contributions were received by Auburn Securities 4 plc from PTSB plc via Capital Home Loans amounting to £41 87 million (2011 £48 81 million) as agreed with the rating agency in each case

Notes *(continued)*

7 Deferred tax (assets)/liabilities

	2012 £'000	2011 £'000
At start of year	**(389)**	564
Credited in year (see note 13)	**(87)**	(953)
At end of year	**(476)**	(389)
Deferred tax asset – effective interest rate and others	**(1,141)**	(1,274)
Deferred tax liability – derivatives	**665**	885
At end of year	**(476)**	(389)

Deferred tax has been calculated using rates enacted or substantively enacted at the balance sheet date The rate used at 31 December 2012 was 23%/23 25% *(2011 25%/25 25%)* depending on when the underlying tax attribute is expected to reverse

The government are proposing to pass legislation in Finance Act 2013 that will enact the previously announced reduction (effective from 1 April 2014) in the corporation tax rate to 21% It is anticipated that the announced reduction to 21% from 1 April 2014 will be included in subsequent Finance Acts If enacted, this would proportionately reduce the deferred tax assets and liabilities noted above

8 Called up share capital

	2012 £'000	2011 £'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

9 Reconciliation of movement in shareholders' equity

31 December 2012	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
At beginning of year	**12**	**(1,026)**	**(1,014)**
Changes to equity for 2012			
Loss on ordinary activities after taxation	-	**(426)**	**(426)**
Total shareholders' equity	**12**	**(1,452)**	**(1,440)**

31 December 2011	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
At beginning of year	12	1,664	1,676
Changes to equity for 2011			
Loss on ordinary activities after taxation	-	(2,690)	(2,690)
Total shareholders' equity	12	(1,026)	(1,014)

10 Interest income

	2012 £'000	2011 £'000
Mortgage interest receivable	**6,776**	7,071
Deposit interest receivable	**382**	223
Fair value movement on interest rate swap	-	166
Other income	**58**	55
On interest rate swaps	**339**	433
	7,555	7,948

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

Auburn Securities 4 plc

Notes *(continued)*

11 Interest expense

	2012 £'000	2011 £'000
On mortgage backed loan notes	**5,007**	5,221
Amortisation of initial funding costs on subordinated loan	**(107)**	47
Additional interest (released)/charged on extension of loan notes	**(127)**	3,818
Fair value movement on interest rate swaps	**648**	-
Other interest	**397**	-
CSA interest payable to CHL	**198**	-
	6,016	9,086

12 Loss before income tax – continuing operations

Included within profit before tax are the following	2012 £'000	2011 £'000
Auditors' remuneration		
Audit fee	**4**	4
Other non-audit work	**13**	14
Deferred consideration	**1,392**	1,855
Fair value losses/(gains) on interest rate swaps	**648**	(166)

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

Auburn Securities 4 plc

Notes *(continued)*

13 Income tax credit

	2012 £'000	2011 £'000
Corporation tax at 24 5% *(2011 26 5%)*	**-**	-
Deferred tax *(see note 7)*	**(87)**	(953)
Total income tax credit	**(87)**	(953)

The tax assessed for the period differs from the standard rate of corporation tax in the United Kingdom of 24 5% *(2011 26 5%)* The differences are explained below

	2012 £'000	2011 £'000
Loss before taxation	**(513)**	(3,643)
Loss by standard rate of corporation tax in UK of 24 5% (2011 26 5%)	**(126)**	(965)
Effects of		
Other	**39**	12
Effective tax credit in year	**(87)**	(953)

Auburn Securities 4 plc

Notes *(continued)*

14 Fair values of financial instruments

As at 31 December 2012	At amortised cost		At fair value through statement of comprehensive income	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Assets				
Cash at bank – restricted	101,758	101,758	-	-
Loans and advances to customers	342,753	257,065	-	-
Derivative assets	-	-	2,885	2,885
	444,511	358,823	2,885	2,885
Liabilities				
Non recourse funding	349,319	318,197	-	-
Deferred consideration	12,502	-	-	-
Amounts due to Capital Home Loans	42,064	-	-	-
Bank loans and overdrafts	45,000	45,000	-	-
	448,885	363,197	-	-

As at 31 December 2011	At amortised cost		At fair value through statement of comprehensive income	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Assets				
Cash at bank – restricted	64,375	64,375	-	-
Loans and advances to customers	358,277	257,959	-	-
Derivative assets	-	-	3,533	3,533
	422,652	322,334	3,533	3,533
Liabilities				
Non recourse funding	364,851	326,612	-	-
Deferred consideration	13,269	-	-	-
Amounts due to Capital Home Loans	48,810	-	-	-
	426,930	326,612	-	-

14 Fair values of financial instruments *(continued)*

The fair values of each of the above financial instruments have 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

  - Remaining life of 5 years
  - Discount rate 0 71%
  - Assumed redemption rate 4 2% per annum

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, and accordingly are level 3 fair values as set out in the fair value hierarchy in IFRS 7, 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 recent 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 fair value estimate in the year was £0 6m loss *(2011 £0 2m gain)* In terms of sensitivities of the above, any reasonably possible change to the cash flow payment of discount rate assumptions for any of the mortgage books, or derivatives would have an equal and opposite effect on the associated borrowings because of the nature of the sensitivities

15 Financial risk management

(a) Introduction and overview

The company's financial instruments comprise amounts due from the mortgage originator, (which are backed by equivalent assets held by that entity), 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

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 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 Regular reports on liquidity are submitted 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 and further detail related to the company's current liquidity position is set out in the basis of preparation note

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

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 Conduct Authority, principally because it does not accept deposits from customers, however its capital is negotiated from time to time with 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

Auburn Securities 4 plc

Notes *(continued)*

15 Financial risk management *(continued)*

(b) Credit risk

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

	2012 £'000	2011 £'000
Total carrying amount – maximum exposure to credit risk	**342,753**	358,277
Individually impaired (arrears > 3 months)	**4,248**	3,907
Allowance for impairment	**(758)**	(317)
Carrying amount	**3,490**	3,590
Collectively impaired	**1,291**	2,454
Allowance for impairment	**(208)**	(462)
Carrying amount	**1,083**	1,992
Neither past due nor impaired	**326,585**	339,096
Includes accounts with renegotiated terms	**11,595**	13,599
Total carrying amount	**342,753**	358,277

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

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

Notes *(continued)*

15 Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

The table below shows an analysis of the Loan to Value for the mortgage portfolio

	2012	2011
	%	%
Less than 50%	**10**	10
50%-70%	**26**	25
71%-90%	**54**	56
91%-100%	**8**	7
101%-110%	**2**	2
At end of year	**100**	100

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 UK An analysis of concentrations of credit risk at the reporting date is shown below

	2012 £'000	2011 £'000
Concentration by sector – carrying amount		
Residential	**34,563**	36,839
Buy to let	**309,156**	322,217
Less Impairment provisions	**(966)**	(779)
	342,753	358,277
Concentration by location – carrying amount		
London & South East	**167,762**	176,159
North East	**27,428**	28,554
North Wales & North West	**25,205**	26,212
South & South Wales	**69,712**	72,150
Midlands	**39,834**	41,464
Other UK	**13,778**	14,517
Less Impairment provisions	**(966)**	(779)
	342,753	358,277

(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 which has been rated as by Moody's as P-1, Fitch as F1 and S&P as A-1 This is a condition of the governing securitisation documentation and all of the cash is initially pledged to pay the non-recourse debt These ratings conform to the condition as set out by the governing securitisation documentation except for S&P rating of which requires a minimum rating of A-1+ However, S&P has confirmed in writing that the financial institution counterparty rating downgrade will not cause S&P to downgrade the current rating of the loan notes

(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 (BA1) 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

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 2012 and 2011

At 31 December 2012

	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
Assets							
Cash – restricted	101,758	101,758	101,758	-	-	-	-
Derivative asset	2,885	2,885	60	120	541	2,164	-
Loans and advances to customers	342,753	429,755	1,602	3,201	14,375	75,937	334,640
Prepayments	10	10	10	-	-	-	-
Total assets	447,406	534,408	103,430	3,321	14,916	78,101	334,640
Liabilities							
Bank loans and overdrafts	45,000	45,000	45,000	-	-	-	-
Non-recourse funding	349,319	402,203	1,423	2,845	12,781	67,674	317,480
Accruals and deferred income	55,003	55,003	55,003	-	-	-	-
Total liabilities	449,322	502,206	101,426	2,845	12,781	67,674	317,480
Net cash flows		32,202	2,004	476	2,135	10,427	17,160

At 31 December 2011

	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
Assets							
Cash - restricted	64,375	64,375	64,375	-	-	-	-
Derivative asset	3,533	3,533	61	123	552	2,797	-
Loans and advances to customers	358,277	450,678	1,533	3,063	13,756	72,702	359,624
Prepayments	9	9	9	-	-	-	-
Total assets	426,194	518,595	65,978	3,186	14,308	75,499	359,624
Liabilities							
Non-recourse funding	364,851	433,704	1,423	2,844	12,778	67,614	349,045
Accruals and deferred income	62,746	62,746	62,746	-	-	-	-
Total liabilities	427,597	496,450	64,169	2,844	12,778	67,614	349,045
Net cash flows		22,145	1,809	342	1,530	7,885	10,579

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

31 December 2012	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	101,758	-	-	-	-	-	-	-	101,758
Loans & advances to customers	341,772	-	981	-	-	-	-	-	342,753
Derivative asset	52	104	470	601	576	552	530	-	2,885
Total financial assets	443,582	104	1,451	601	576	552	530	-	447,396
Impact of interest rate swap	3,814	(104)	(1,451)	(601)	(576)	(552)	(530)	-	-
Financial assets after interest rate swap	447,396	-	-	-	-	-	-	-	447,396
Bank loans and overdrafts	(45,000)	-	-	-	-	-	-	-	(45,000)
Non-recourse funding	(349,319)	-	-	-	-	-	-	-	(349,319)
Total financial liabilities	(394,319)	-	-	-	-	-	-	-	(394,319)
Net interest repricing gap	53,077	-	-	-	-	-	-	-	53,077
Cumulative repricing gap	53,077	53,077	53,077	53,077	53,077	53,077	53,077	53,077	53,077

Notes *(continued)*

15 Financial risk management *(continued)*

(d) Interest rate risks (continued)

31 December 2011	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	64,375	-	-	-	-	-	-	-	64,375
Loans & advances to customers	356,636	-	738	903	-	-	-	-	358,277
Derivative asset	61	121	545	736	713	690	667	-	3,533
Total financial assets	421,072	121	1,283	1,639	713	690	667	-	426,185
Impact of interest rate swap	5,113	(121)	(1,283)	(1,639)	(713)	(690)	(667)	-	-
Financial assets after interest rate swap	426,185	-	-	-	-	-	-	-	426,185
Non-recourse funding	(364,851)	-	-	-	-	-	-	-	(364,851)
Total financial liabilities	(364,851)	-	-	-	-	-	-	-	(364,851)
Net interest reciprocal	61,334	-	-	-	-	-	-	-	61,334
Cumulative repricing gap	61,334	61,334	61,334	61,334	61,334	61,334	61,334	61,334	61,334

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, 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

16 Other financial commitments

Restricted cash balances

Cash balances held includes restricted cash balances to the value of £101 8m *(2011 £64 4m)*, which must be primarily utilised to make payments due on the company's non-recourse funding priority to any other use

17 Ultimate parent undertaking

The company was established by a contract as part of an individual mortgage securitisation This contract governs the relationship between Capital Home Loans, the mortgage originator, Permanent TSB Group Holdings plc, Capital Home Loan's ultimate parent undertaking, and Auburn Securities 4 plc, whose activities are precisely defined in the relevant legal documents The entity's results have been consolidated within the financial statements of Permanent TSB Group Holdings 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 56-59 St Stephen's Green, Dublin 2, Republic of Ireland

Auburn Securities 4 plc

Notes *(continued)*

18 Related party transactions

The company has a related party relationship with Capital Home Loans Limited, with its parent undertaking, Permanent TSB plc, with its ultimate parent undertaking, Permanent TSB Group Holdings plc and its directors 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 2012 £'000	**As at 31 December 2012 £'000**	During Year ended 31 December 2011 £'000	As at 31 December 2011 £'000
Loans and advances to customers	**6,776**	**342,753**	7,071	358,277
Deferred consideration due	**(1,392)**	**(12,502)**	(1,855)	(13,269)
Additional capital amounts due	**(6,940)**	**(41,870)**	(10,090)	(48,810)
Interest swap amounts due	**339**	**(8)**	433	83
Other administrative expenses paid	**(43)**	**(4)**	(43)	(4)
CSA interest payable to CHL	**(198)**	**(14)**	-	-

The company undertook the following transactions with Permanent TSB plc in the year

	During year ended 31 December 2012 £'000	**As at 31 December 2012 £'000**	During year ended 31 December 2011 £'000	As at 31 December 2011 £'000
Other administrative expenses	**(10)**	**(2)**	(10)	(62)

19 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**
Going concern	Details set out in basis of preparation note
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 14

Notes *(continued)*

19 Significant judgements/estimates made by management *(continued)*

Fair value of financial instruments	Details set out in note 14

20 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 Details on the geographical analysis of the company's loan book and other details on its customers are set out in note 10 and 15 Additionally, there are no other segmental analyses reviewed by the company's chief operating decision maker in this regard

21 Approval of financial statements

The board of directors approved these financial statements on 7 May 2013