

Auburn Securities 4 plc

Annual Report and Financial Statements

Year Ended 31 December 2016



CONTENTS

	Page
DIRECTORS AND OTHER INFORMATION	2
STRATEGIC REPORT	3 - 4
DIRECTORS' REPORT	5 - 6
DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS	7
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUBURN SECURITIES 4 PLC	8 - 9
ACCOUNTING POLICIES	10 - 15
STATEMENT OF COMPREHENSIVE INCOME	16
STATEMENT OF FINANCIAL POSITION	17
STATEMENT OF CHANGES IN EQUITY	18
STATEMENT OF CASH FLOWS	19
NOTES TO THE FINANCIAL STATEMENTS	20 - 38

DIRECTORS AND OTHER INFORMATION

Directors

M. Clarke-Whelan (née M. Clarke)
D. J. Wynne
Wilmington Trust SP Services (London) Limited

Solicitors

Rosling King LLP
10 Old Bailey
London
EC4M 7NG

Company Secretary and Registered Office

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

Registered Number: 05183076

Bankers

Barclays Bank plc
Financial Markets Team
Level 28
One Churchill Place
London
E14 5HP

Citibank, N.A. London Branch
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB

Statutory Auditor

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

STRATEGIC REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2016.

Principal activities

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

Business review, results and future developments

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 ("CHL"). Since then, the Company has continued to hold the related mortgage assets, the income and capital payments from which have been used to repay debt funding raised as part of the original securitisation transaction.

The Company has a gross loan balance of £257.0m at 31 December 2016 (2015: £277.2m). This is funded via external securitisation. The directors currently expect the notes in issue to be redeemed within 5 years - being the point in which the Class A notes are substantially repaid and the transaction collapsed.

The Company recorded a loss after tax of £59k in 2016 (2015: £193k profit) owing to the fair value movement in the swap derivatives and step-up interest adjustments.

CHL continues in its role as the mortgage loan servicer and cash manager on the securitisation transaction, further details of this relationship are set out in note 19.

The weighted average LTV for the loan book has improved from 60% in December 2015 to 55% in December 2016 consistent with the recent rise seen in the UK house price index and the redemption rate in 2016 was 7.53% (2015: 7.79%).

Details of the results for the year are set out in the Statement of Comprehensive Income on page 16 and in the related notes.

Key performance indicators

Key performance indicators utilised by the Company are:

	2016 £'000	2015 £'000
Net interest income	1,023	1,453
Accounts equal to or over 3 months in arrears by value	0.3%	0.3%
Bad debt provisioning as a % of the total gross loan book	0.3%	0.2%

Principal risks and uncertainties

In common with all businesses, the Company faces certain risks and uncertainties. As the Company operates in the financial services industry the majority of its key risks and uncertainties arise from its financial instruments and principally relate to mortgage arrears and associated liquidity and interest rate profile. The main financial risks faced by the Company are credit risk, interest rate risk, operational risk and liquidity risk. These risks are discussed in more detail in note 17.

Credit risk on the Company's loans from the originator assets is however, considered to be minimal due to the nature of the portfolio being highly seasoned at c159 months at 31 December 2016 and that significant new credit exposures to particular sector or individuals do not typically arise.

The interest rate risk inherent in the Company's mortgage portfolio had been hedged through the effective use of 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.

STRATEGIC REPORT - continued

Principal risks and uncertainties - continued

Operational risk is the potential for financial or reputational loss if key internal controls of the mortgage servicer were to fail. It includes loss from theft, error and systems breakdown. The mortgage servicer's compliance department and its key management are tasked with the monitoring and control of such risk on behalf of 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.

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.

Capital Management

In accordance with the Company's 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.

Going concern

It is expected that the Company will continue to have sufficient cash inflows from its current cash resources and its mortgage portfolio to meet its on-going obligations, in particular for its senior non-recourse debt providers.

The directors of the Company have considered various matters in evaluating the appropriateness of the going concern basis of preparation for its financial statements. These various matters are set out under the going concern section within the statement of accounting policies.

By order of the Board on 29 June 2017 and signed on behalf by



Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Secretary

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2016.

Dividends

No dividends have been paid or proposed for either of the 2016 or 2015 financial years.

Directors and secretaries

The following directors and secretaries are in office at the date of approval of the financial statements and have held office since 1 January 2016, except as stated below:

M. Clarke-Whelan (née M. Clarke)	Director	
Wilmington Trust SP Services (London) Limited	Director	
M. H. Filer	Director	(resigned 7 April 2017)
D. J. Wynne	Director	(appointed 20 March 2017)
Wilmington Trust SP Services (London) Limited	Company Secretary	

Corporate governance statement

The directors are responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing CHL, to maintain proper books and records of the Company, to prepare for review and approval by the Board the annual report including financial statements intended to give a true and fair view, to operate effective internal controls in relation to the financial reporting process and to report to the Board.

For further details, refer to the notes to the financial statements particularly note 17 on financial risk management.

Due to the nature of the securities which have been issued on the Irish Stock Exchange, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the requirements of the Irish Corporate Governance Annex and the provision of the UK Corporate Governance Code.

Political and charitable contributions

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

Employees

The Company does not have any employees. Primary and Special Servicing of the mortgage loan portfolio is carried out by CHL.

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.

Events occurring after balance sheet date

There have not been any reportable subsequent events between the balance sheet date and the date of signing this report that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 December 2016 and for the year then ended.

On 23 June 2016, the UK voted to leave the EU, subsequently, the triggering of Article 50 took place on 29 March 2017. At the date of signing these accounts the Directors do not foresee any immediate risks crystallising, however, they acknowledge the uncertainty that continues to exist. The directors will continue to keep this under review.

DIRECTORS' REPORT - continued

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approval of financial statements

The board of directors approved these financial statements on 29 June 2017.

On behalf of the board



Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Secretary
29 June 2017

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have 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.

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 2016 set out on pages 10 to 38. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' report:

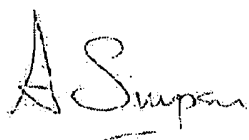
- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUBURN SECURITIES 4
PLC - continued**

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.



Alexander Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peters Square
Manchester
M2 3AE
29 June 2017

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 that are effective and adopted by the European Union 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

The Company was incorporated in the United Kingdom. Its principal activities are outlined in the Strategic 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 2016 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 from the originator impairment provisions including security valuations and interest rate assumptions. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20.

Going concern

The Company as a securitisation special purpose vehicle has been structured so as to mitigate any known forms of financial risk associated with its loan notes in issue that have beneficial claim on the underlying pool of mortgage loan portfolio and other Company assets as adequate collateral as well as match-funded to maturity. The Company is funded by mortgage backed loan notes which are committed until 2041. Consequently, the directors are satisfied that the Company has adequate liquidity resources to continue in operational existence over the foreseeable future to meet its on-going obligations, in particular for its senior non-recourse debt providers. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, note 17 to the financial statements include the Company's financial risk management objectives, policies and processes for managing its capital.

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 by a detailed priority of payments set out in the securitisation transaction document. These amounts are separate from any of the Company's own (unrestricted) cash balances in the statement of financial position and in the statement of cash flows.

ACCOUNTING POLICIES - continued

Loans from the originator

Loans from the originator 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 from the originator were originated in a securitisation transaction from a related undertaking, CHL – however CHL did not derecognise those assets on the transaction as it was deemed to have retained control of the underlying assets. Accordingly the Company has recognised equivalent loans due from CHL 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.

Determination of fair value of financial instruments

The Company measures financial instruments, such as, derivative financial instruments, at fair value on initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which is accessible to the Company.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole described as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques such as discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

ACCOUNTING POLICIES - continued

Determination of fair value of financial instruments – continued

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 15.

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 other operating expense as all of the entity's derivatives on hand are treated as held for trading purposes for the purpose of this accounting policy.

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 of the embedded derivative 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 determined by using discounted cash flow analyses, where appropriate. Further details on how such derivatives are fair valued are outlined in note 16.

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 financial statements are presented in pounds sterling, which is the Company's functional currency. Except where otherwise indicated financial information presented in pounds sterling has been rounded to the nearest thousand ('000').

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 to pounds sterling at the exchange rates prevailing at the balance sheet date. Exchange movements on these are recognised in the statement of comprehensive income.

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. As explained in note 5, income tax expense is calculated by reference to the profit of the Company which is retained in accordance with the priority of payments as defined in the terms and conditions of the loan notes. 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.

Financial liabilities

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

ACCOUNTING POLICIES - continued

Interest income and expense

Interest income and expenses are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The 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 or issuance 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, which are as part of accruals and deferred income in note 13.

ACCOUNTING POLICIES - continued

Adoption of new and revised reporting standards

The new standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not considered to have a material impact on the Company.

New reporting standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9 largely replaces the requirements of the existing financial instruments standard, IAS 39: 'Financial Instruments: Recognition and Measurement' and was endorsed by the EU on 22 November 2016. The standard is effective for annual periods beginning on or after 1 January 2018 and is required to be applied retrospectively. However, prior periods need not be restated, instead an adjustment may be reflected in opening retained earnings at the start of the period when IFRS 9 is first adopted.

The standard includes requirements for classification and measurement of financial assets and liabilities, hedge accounting and the impairment of financial assets.

Classification and measurement

The classification of financial assets will be based on the objectives of the Company's business model and the contractual cash flow characteristics of the instruments. Financial assets will then be classified as held at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL"). In most instances, the measurement outcomes will be similar to those under IAS 39 and therefore, any changes from the accounting treatment currently followed by the Company under IAS 39 are not expected to be significant. The classification of financial liabilities is essentially unchanged from the treatment under IAS 39.

Impairment of financial assets

Impairment provisions in all financial assets are recognised based on either 12 month expected losses or lifetime expected losses. This will result in the acceleration of the recognition of impairment provisions and will lead to more volatile impairment charges in the income statement. However, whilst IFRS9 represents a significant change compared to IAS 39, the quantum of impairment losses recorded against any one loan over the life of the loan will not change as IFRS 9 alters only the timing of recognition of impairment losses.

IFRS 9 introduces a number of changes to approach as compared to the current methodology under IAS 39. The main changes are:

- Expected credit losses ("ECL") are based on an assessment of the probability of default, loss given default and exposure at default discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted to reflect a range of possible outcomes taking into account all reasonable and supportable information including forward-looking economic assumptions.
- On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of origination, IFRS 9 provisions will be made to reflect ECL arising from expected credit default events within the next 12 months.
- A key requirement of IFRS 9, compared with the existing impairment approach under IAS 39, relates to assets where there has been a significant increase in credit risk since the date of origination. Provisions will be made for those assets expected to default at any point over their lifetime, reflecting the asset's full expected loss.
- For assets where there is evidence of credit impairment, provisions will be made under IFRS 9 for lifetime expected credit losses, taking account of forward looking economic assumptions and a range of possible outcomes. Under IAS 39, provisions are currently based on the asset's carrying value and the present value of the estimated future cash flows.

ACCOUNTING POLICIES

New reporting standards not yet adopted – continued

Application of IFRS 9 is expected to have significant impact on Company's results and financial position in line with the wider industry. Overall, impairment under IFRS 9 will increase the complexity of the Company's impairment modelling and result in earlier recognition of credit losses than under IAS 39 which is likely to lead on an increase in total provisions.

Hedge accounting

The hedge accounting requirements of IFRS 9 are designed to create a stronger link with financial risk management. The Company has limited exposures on hedging instruments as these relate only to the interest rate swap derivatives in the securitisation vehicles. Accordingly, its adoption is not expected to have a material impact on its results or financial position.

Implementation

During the year the Company has established and commenced its IFRS 9 programme to ensure it is able to comply with the new requirements. This programme is jointly sponsored by the Chief Financial Officer and Chief Risk Officer and includes (but not limited to) finance, risk and credit risk personnel. Gap assessment workshops carried out during the last quarter of 2016 were completed in order to establish the distance between existing model and the IFRS 9 requirements. The on-going programme workflows during 2017 include defining the IFRS 9 methodology and accounting policies, analysis of historic internal and external credit performance metrics, prototype model design, consideration of how economic factors should affect the IFRS 9 impairment, establishment of appropriate and compliant operating models within an appropriate governance framework. Upon the conclusion of the above development and build phases, testing of credit models and validating outputs, development of management information, implementation of business process changes and a parallel run phase are anticipated to be carried out during the second half of 2017. External consultants and the Company's external auditors have been engaged with as appropriate. Progress is regularly reported to the IFRS 9 Steering Committee and to CHL's Board Audit & Risk Committee.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. Its adoption is not expected to have a material impact on its results or financial position.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

STATEMENT OF COMPREHENSIVE INCOME
Year Ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Interest income	1	5,108	5,836
Interest expense	2	<u>(4,085)</u>	<u>(4,383)</u>
Net interest income - continuing operations		1,023	1,453
Other operating expenses		(908)	(1,170)
Impairment (losses)/credit on loans from the originator	3	<u>(148)</u>	<u>(38)</u>
(Loss)/profit before income tax - continuing operations	4	(33)	245
Income tax charge	5	<u>(26)</u>	<u>(52)</u>
Total comprehensive (loss)/profit for the year	6	<u>(59)</u>	<u>193</u>
(Loss)/profit attributable to the owners of the Company		<u>(59)</u>	<u>193</u>

All amounts relate to continuing operations.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Cash at bank - restricted	7	92,628	96,809
Derivative asset	8	1,831	2,072
Loans from the originator	3	256,232	276,589
Prepayments and accrued income	9	12	12
Deferred tax asset	10	413	439
Total asset		<u>351,116</u>	<u>375,921</u>
Liabilities			
Bank loans and overdraft	11	77,890	79,870
Non-recourse funding	12	261,729	284,271
Current tax liability	13	1	-
Accruals and deferred income	14	13,175	13,400
Total liabilities		<u>352,795</u>	<u>377,541</u>
Equity			
Share capital	15	12	12
Accumulated losses	6	(1,691)	(1,632)
Total equity attributable to equity holders of the Company	6	<u>(1,679)</u>	<u>(1,620)</u>
Total liabilities and equity		<u>351,116</u>	<u>375,921</u>

The financial statements on pages 10 to 38 were approved by the board of directors on 29 June 2017 and were signed on its behalf by:



Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Director

Company Registered Number: 05183076

STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2016

	Share capital £'000	Accumulated losses £'000	Total equity £'000
31 December 2016			
Balance at beginning of the year	12	(1,632)	(1,620)
Total comprehensive income for the year - loss	-	(59)	(59)
Balance at end of year	<u>12</u>	<u>(1,691)</u>	<u>(1,679)</u>
31 December 2015			
Balance at beginning of the year	12	(1,825)	(1,813)
Total comprehensive income for the year - profit	-	193	193
Balance at end of year	<u>12</u>	<u>(1,632)</u>	<u>(1,620)</u>

STATEMENT OF CASH FLOWS
Year Ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
(Loss)/profit before taxation for year	(33)	245
Adjustments for		
<i>(Increase)/decrease in assets</i>		
Loans from the originator	20,357	23,216
Derivative assets	241	(6)
<i>Increase/(decrease) in liabilities</i>		
Non-recourse funding	(22,542)	(22,764)
Funding from banks and credit institutions	(1,979)	34,870
Accruals and deferred income	(225)	(41,091)
Net cash flows arising from operating activities	<u>(4,181)</u>	<u>(5,530)</u>
Cash flows from financing activities		
Net (increase)/decrease in restricted cash	<u>4,181</u>	<u>5,530</u>
Net movement in cash and cash equivalents		
Cash and cash equivalents at 1 January 2016	<u>-</u>	<u>-</u>
Cash and cash equivalents at 31 December 2016	<u>-</u>	<u>-</u>

The cash balance as stated on the Balance Sheet of £92.6m relates to restricted cash balances of the entity as described further in Note 7. As these are not considered to represent free cash of the company they have been excluded from the closing cash balance above.

NOTES TO THE FINANCIAL STATEMENTS

1 Interest income	2016 £'000	2015 £'000
Mortgage interest receivable	4,777	5,454
Deposit interest receivable	217	269
Other income	114	113
	<u>5,108</u>	<u>5,836</u>

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

2 Interest expense	2016 £'000	2015 £'000
On mortgage backed loan notes	3,577	4,022
Additional interest released on extension of loan notes	(202)	(231)
Other interest	611	479
CSA interest payable to CHL	-	68
CSA interest payable to PTSB	99	45
	<u>4,085</u>	<u>4,383</u>

3 Loans from the originator	2016 £'000	2015 £'000
Loans from the originator	257,023	277,184
Less: impairment provisions - see below	<u>(791)</u>	<u>(595)</u>
All represented by residential mortgages in the UK	<u>256,232</u>	<u>276,589</u>

In October 2004, the Company purchased the rights to certain cash flows from £995.9 million of mortgage assets from CHL. 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, these assets are classified as amounts owed from CHL, 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 the Company, (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 CHL, the mortgage originator.

CHL 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 CHL in the form of deferred consideration.

All loans from the originator are measured at amortised cost. The fair value of loans from the originator is disclosed in note 16. All of the above loans are secured on residential properties located in the United Kingdom. A maturity and credit risk analysis of loans from the originator is shown in note 17.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Loans from the originator - continued

Impairment losses on loans from the originator	2016 £'000	2015 £'000
Balance at beginning of year	595	808
Charged/(Credited) to statement of comprehensive income	148	38
Amounts written back/(written off)	<u>48</u>	<u>(251)</u>
Balance at end of year	<u>791</u>	<u>595</u>

All of the loans from the originator have been pledged as collateral for the Company's non-recourse loan notes received.

	2016 £'000	2015 £'000
Specific provision	789	582
Collective provision	<u>2</u>	<u>13</u>
Balance at end of year	<u>791</u>	<u>595</u>

Included in interest income is a total of £0.01m in 2016 (2015: £0.02m) accrued on impaired financial assets of the Company.

4 (Loss)/profit before income tax - continuing operations	2016 £'000	2015 £'000
---	---------------	---------------

Included within (loss)/profit before tax are the following:

Auditor's remuneration		
- audit fee	8	8
- other services relating to taxation	-	7
- other non-audit work	<u>12</u>	<u>12</u>
Deferred consideration	<u>723</u>	<u>964</u>
Fair value (loss)/profit on interest rate swaps	<u>(77)</u>	<u>(6)</u>

The directors received no remuneration from the Company for their services as directors in the current and preceding financial years. The Company has no employees and services required are contracted from related parties (see note 19).

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Income tax charge	2016 £'000	2015 £'000
Deferred tax (see note 10)	26	52
Total income tax charge	26	52

The tax assessed for the period differs from the standard rate of corporation tax in the United Kingdom of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
(Loss)/profit before taxation	(33)	245
Loss by standard rate of corporation tax in UK of 20.00% (2015: 20.25%)	(7)	50
<i>Effects of:</i>		
Other	33	2
Effective tax charge in year	26	52

The Company is taxed under the "Temporary Regime" for securitisation companies (S.83, Finance Act, 2005) on the basis that the Company entered into securitisation transactions before 2007 and have not made an election to be taxed under the "Permanent Regime" (SI 2006/3296).

6 Reconciliation of movement in shareholders' equity	Share capital £'000	Accumulated losses earnings £'000	Total equity £'000
At 31 December 2016			
At beginning of year	12	(1,632)	(1,620)
<i>Changes in equity for 2016:</i>			
Loss on ordinary activities after taxation	-	(59)	(59)
Total shareholders' equity	12	(1,691)	(1,679)
At 31 December 2015			
At beginning of year	12	(1,825)	(1,813)
<i>Changes in equity for 2015:</i>			
Profit on ordinary activities after taxation	-	193	193
Total shareholders' equity	12	(1,632)	(1,620)

7 Restricted cash balances

Cash balances held includes restricted cash balances to the value of £92.6m (2015 £96.8m), which must be primarily utilised to make payments due on the Company's non-recourse funding prior to any other use.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Derivative financial instruments	Positive/ (negative) fair value 2016 £'000	Notional amount 2016 £'000	Positive/ (negative) fair value 2015 £'000	Notional amount 2015 £'000
<i>Derivative assets</i>				
Interest rate swaps with PTSB	<u>1,831</u>	<u>257,023</u>	<u>2,072</u>	<u>277,184</u>

The above interest rate swaps are treated as held for trading by the Company and the movement in fair value for these swaps has been accounted for within net interest income.

9 Prepayments and accrued income	2016 £'000	2015 £'000
Other debtors	<u>12</u>	<u>12</u>

All amounts fall due within one year.

10 Deferred tax (assets)/liabilities	2016 £'000	2015 £'000
At start of year	(439)	(491)
Credited in year (see note 5)	<u>26</u>	<u>52</u>
At end of year	<u>(413)</u>	<u>(439)</u>
Deferred tax asset - effective interest rate and others	(751)	(854)
Deferred tax liability - derivatives	<u>338</u>	<u>415</u>
At end of year	<u>(413)</u>	<u>(439)</u>

Deferred tax has been calculated using rates expected to apply in the period when the asset is realised or liability settled, based on tax rates that have been substantially enacted at the balance sheet date.

Finance (no.2) Act 2015 enacted a reduction in the UK corporation tax main rate to 19% with effect from 1 April 2017 and Finance Act 2016 enacted a further reduction in the UK corporation tax main rate to 17% with effect from 1 April 2020.

11 Bank loans and overdrafts	2016 £'000	2015 £'000
Amounts due to PTSB	32,890	34,870
Amounts due to other banks and credit institutions	<u>45,000</u>	<u>45,000</u>
	<u>77,890</u>	<u>79,870</u>

During 2014 and 2015, certain conditions relating to the credit rating of Permanent TSB plc were not met, and consequently additional cash contributions were received by the Company from PTSB. These amounts had previously been provided to the Company via CHL, however following the sale of CHL on the 31 July 2015 these amounts are now provided directly by PTSB.

Key terms attaching to these amounts are included in notes 16 and 17.

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Non-recourse funding	2016	2015
	£'000	£'000
Mortgage backed loan notes	257,657	279,996
Plus: adjustment to effective interest rate	<u>4,072</u>	<u>4,275</u>
	<u>261,729</u>	<u>284,271</u>

On 11 October 2004, the Company issued £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 CHL, who also administer the mortgage portfolio.

The mortgage backed loan notes are listed on the London Stock Exchange. Maturity date is October 2041.

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)	-	LIBOR + 0.12%	LIBOR + 0.24%
Class A2 (£597.5 million)	125,157	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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Current tax liability	2016 £'000	2015 £'000
Payable within one year	<u>1</u>	<u>-</u>
14 Accruals and deferred income	2016 £'000	2015 £'000
Deferred consideration	12,375	13,098
Amounts due to Capital Home Loans	3	3
Accruals and deferred income	<u>797</u>	<u>299</u>
	<u>13,175</u>	<u>13,400</u>
15 Called up share capital	2016 £'000	2015 £'000
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	<u>12</u>	<u>12</u>
	<u>12</u>	<u>12</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Fair values of financial statements

	At amortised cost		At fair value through statement of comprehensive income	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
As at 31 December 2016				
Assets				
Cash at bank - restricted	92,628	92,628	-	-
Loans from the originator	256,232	239,577	-	-
Derivative assets	-	-	1,831	1,831
	<u>348,860</u>	<u>332,205</u>	<u>1,831</u>	<u>1,831</u>
Liabilities				
Non-recourse funding	261,729	257,449	-	-
Deferred consideration	12,375	-	-	-
Bank loans and overdrafts	77,890	77,890	-	-
	<u>351,994</u>	<u>335,339</u>	<u>-</u>	<u>-</u>
As at 31 December 2015				
Assets				
Cash at bank - restricted	96,809	96,809	-	-
Loans from the originator	276,589	257,228	-	-
Derivative assets	-	-	2,072	2,072
	<u>373,398</u>	<u>354,037</u>	<u>2,072</u>	<u>2,072</u>
Liabilities				
Non-recourse funding	284,271	278,008	-	-
Deferred consideration	13,098	-	-	-
Bank loans and overdrafts	79,870	79,870	-	-
	<u>377,239</u>	<u>357,878</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Fair values of financial statements - continued

The following table sets out the fair values of financial instruments that the Company holds at 31 December 2016. It categorises these securities into the relevant level on fair value hierarchy.

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

	Carrying amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000
As at 31 December 2016					
Assets					
Cash at bank - restricted	92,628	92,628	-	-	92,628
Loans from the originator	256,232	-	-	239,577	239,577
Derivative assets	1,831	-	-	1,831	1,831
	<u>350,691</u>	<u>92,628</u>	<u>-</u>	<u>241,408</u>	<u>334,036</u>
Liabilities					
Non-recourse funding	261,729	-	-	257,449	257,449
Deferred consideration	12,375	-	-	-	-
Bank loans and overdrafts	77,890	77,890	-	-	77,890
	<u>351,994</u>	<u>77,870</u>	<u>-</u>	<u>257,449</u>	<u>335,339</u>
As at 31 December 2015					
Assets					
Cash at bank - restricted	96,809	96,809	-	-	96,809
Loans from the originator	276,589	-	-	257,228	257,228
Derivative assets	2,072	-	-	2,072	2,072
	<u>375,470</u>	<u>96,809</u>	<u>-</u>	<u>259,300</u>	<u>356,109</u>
Liabilities					
Non-recourse funding	284,271	-	-	278,008	278,008
Deferred consideration	13,098	-	-	-	-
Bank loans and overdrafts	79,870	79,870	-	-	79,870
	<u>377,239</u>	<u>79,870</u>	<u>-</u>	<u>278,008</u>	<u>357,878</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Fair values of financial statements - 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 from the originator, 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 book. At 31 December 2016, the loans from the originator and the non-recourse funding fair value, however, have been derived using an alternative approach. The principal underlying assumptions related to these cash flows are as follows;

- The fair value of loans from the originator were 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 mortgages with similar profiles, adjusting for the appropriate credit spread differential and discounting the relevant projected cash flows to fair value. At 31 December 2016, the fair value of loans from the originator were derived using a straight-line fair valuation analysis of the mortgage loan book based on the latest property valuation and assumed foreclosure costs of 20%.
- 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 securitised loans from the originator on the basis that the funding has recourse only to these mortgage books.
- The derivative fair values were derived by discounting expected cash flows on the associated swaps, 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 a 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: 0.38%;
 - Assumed redemption rate: 7.5% per annum (based on 3 year average)
- These assumptions are, other than the discount rate, which is broadly based on current LIBOR rates plus credit spread 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, 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.

Currently the directors expect the interest rate swaps to have a remaining life of 5 years. The total amount recognised in the statement of comprehensive income in relation to this fair value estimate in the year was 2016: £241k loss (2015: £6k gain). In terms of sensitivities of the above, any reasonably possible change to the cash flow payment or discount rate assumptions for any of the mortgage books, or derivatives would have an equal and opposite effect of the associated borrowings because of the nature of the sensitivities.

Derivative valuations were are classified as level 3, due to the unobservable inputs being the significant drivers of the valuation model.

NOTES TO THE FINANCIAL STATEMENTS - continued**17 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 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 from the originator. 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 via CHL as mortgage servicer 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 portfolio, 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 portfolio 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.

Operational risk

This is the potential for financial or reputational loss if key internal controls of the mortgage servicer 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 on behalf of 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 has limited exposure to foreign exchange rate fluctuations. Interest rate risk management policies are separately documented above.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(a) Introduction and overview - continued

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. 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.

Capital management

Because of its special purpose nature, the Company's principal funding comes through its non-recourse debt, which is intended to be repaid fully from the mortgage assets on hand. Capital is considered by management to comprise share capital on hand, retained earnings and any subordinated loans received from time to time, is considered to be sufficient for the particular nature of the Company's activities and is in line with the Company's governing documentation. There have been no changes to the Company's approach to capital management during the year.

(b) Credit risk

(i) Loans from the originator - exposure to credit risk	2016 £'000	2015 £'000
Total carrying amount - maximum exposure to credit risk	256,232	276,589
Individually impaired	1,563	1,790
Allowance for impairment	(789)	(582)
Carrying amount	774	1,208
Collectively impaired	656	881
Allowance for impairment	(2)	(13)
Carrying amount	654	868
Neither past due nor impaired - carrying amount	244,759	264,570
Includes accounts with renegotiated terms	10,045	9,943
Total carrying amount	256,232	276,589

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(b) Credit risk - continued

(i) Loans from the originator - exposure to credit risk - continued

All of the above loans which are neither past due nor impaired have no arrears arising on them. The loans from the originator balance and associated impairments reflect the values from the originator.

Impaired loans from the originator

Impaired loans from the originator 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 from the originator 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 but in accordance with FCA guidelines. 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.

The key assumptions relating to the calculation of the specific loss impairment concerns the calculation of the present value of estimated future cash flows from collateralised loan balances. The collective loan loss impairment is calculated based on statistical models where the key assumptions relate to the arrears position of customer accounts.

Write-off policy

Write off of a loan balance (and any related allowances for impairment losses) occurs when the credit committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's 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.

The key assumptions relating to the calculation of the specific loss impairment concerns the calculation of the present value of estimated future cash flows from collateralised loan balances. The collective loan loss impairment is calculated based on statistical models where the key assumptions relate to the arrears position of customer accounts.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(b) Credit risk - continued

(i) Loans from the originator - continued

The table below shows the Loan to Value for the mortgage portfolio analysed across residential and buy to let facilities:

	2016 Residential %	2016 Buy to let %	2015 Residential %	2015 Buy to let %
Less than 50%	53	43	34	39
50%- 70%	43	49	53	48
71%- 90%	4	8	13	13
At end of year	100	100	100	100

The Company monitors concentrations of credit risk by sector and by geographic location within the UK. An analysis of concentrations of credit risk at the reporting date is shown below:

	2016 £'000	2015 £'000
Concentration by sector - carrying amount		
Residential	25,373	26,901
Buy to let	231,650	250,283
Less: Impairment provisions	(791)	(595)
	256,232	276,589
Concentration by location - carrying amount		
London & South East	121,805	130,338
North East	22,426	23,485
North Wales & North West	28,928	30,661
South & South West	41,004	46,616
Midlands	32,342	34,915
Other UK	10,518	11,169
Less: Impairment provisions	(791)	(595)
	256,232	276,589

(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 is rated by Moodys as P1, S&P as A1 and Fitch as F1 (short term ratings). These ratings conform to the condition as set out by the governing securitisation documentation.

(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 (B1) and Standard & Poors as (BB). 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 TO THE FINANCIAL STATEMENTS - continued

17 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 2016 and 2015:

At 31 December 2016	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	92,628	92,628	92,628	-	-	-	-
Derivative asset	1,831	1,831	36	72	321	1,402	-
Loans from the originator	256,232	298,824	346	761	5,732	43,678	248,307
Prepayments and accrued income	12	12	12	-	-	-	-
Total assets	<u>350,703</u>	<u>393,295</u>	<u>93,022</u>	<u>833</u>	<u>6,053</u>	<u>45,080</u>	<u>248,307</u>
Liabilities							
Bank loans and overdrafts	77,890	77,890	-	9	45,345	3,591	28,945
Non-recourse funding	261,729	289,277	257	583	5,015	39,743	243,679
Current tax liability	1	1	-	-	1	-	-
Accruals and deferred income	13,175	13,175	13,175	-	-	-	-
Total liabilities	<u>352,795</u>	<u>380,343</u>	<u>13,432</u>	<u>592</u>	<u>50,361</u>	<u>43,334</u>	<u>272,624</u>
Net cash flows		<u>12,952</u>	<u>79,590</u>	<u>241</u>	<u>(44,308)</u>	<u>1,746</u>	<u>(24,317)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(c) Liquidity risk - continued

At 31 December 2015	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	96,809	96,809	96,809	-	-	-	-
Derivative asset	2,072	2,072	40	80	361	1,591	-
Loans from the originator	276,589	347,774	534	1,513	6,387	52,274	287,066
Prepayments and accrued income	12	12	12	-	-	-	-
Total assets	<u>375,482</u>	<u>446,667</u>	<u>97,395</u>	<u>1,593</u>	<u>6,748</u>	<u>53,865</u>	<u>287,066</u>
Liabilities							
Bank loans and overdrafts	79,870	79,870	-	56	45,205	3,491	31,118
Non-recourse funding	284,271	323,671	328	1,105	4,590	43,080	274,568
Accruals and deferred income	13,400	13,400	13,400	-	-	-	-
Total liabilities	<u>377,541</u>	<u>416,941</u>	<u>13,728</u>	<u>1,161</u>	<u>49,795</u>	<u>46,571</u>	<u>305,686</u>
Net cash flows		<u>29,726</u>	<u>83,667</u>	<u>432</u>	<u>(43,047)</u>	<u>7,294</u>	<u>(18,620)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(d) Interest rate risk

The tables below summarises the interest rate re-pricing profiles of the Company's interest bearing financial assets and liabilities:

As at 31 December 2016	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	92,628	-	-	-	-	-	-	-	92,628
Derivative asset	1,831	-	-	-	-	-	-	-	1,831
Loans & advances to customers	256,232	-	-	-	-	-	-	-	256,232
Total financial assets	350,691	-	-	-	-	-	-	-	350,691
Bank loans and overdrafts	(77,890)	-	-	-	-	-	-	-	(77,890)
Non-recourse funding	(261,729)	-	-	-	-	-	-	-	(261,729)
Total financial liabilities	(339,619)	-	-	-	-	-	-	-	(339,619)
Net interest repricing gap	11,072	-	-	-	-	-	-	-	11,072
Cumulative repricing gap	11,072	11,072	11,072	11,072	11,072	11,072	11,072	11,072	11,072

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(d) Interest rate risk - continued

As at 31 December 2015	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	96,809	-	-	-	-	-	-	-	96,809
Derivative asset	2,072	-	-	-	-	-	-	-	2,072
Loans & advances to customers	276,589	-	-	-	-	-	-	-	276,589
Total financial assets	375,470	-	-	-	-	-	-	-	375,470
Bank loans and overdrafts	(79,870)	-	-	-	-	-	-	-	(79,870)
Non-recourse funding	(284,271)	-	-	-	-	-	-	-	(284,271)
Total financial liabilities	(364,141)	-	-	-	-	-	-	-	(364,141)
Net interest repricing gap	11,329	-	-	-	-	-	-	-	11,329
Cumulative repricing gap	11,329	11,329	11,329	11,329	11,329	11,329	11,329	11,329	11,329

NOTES TO THE FINANCIAL STATEMENTS - continued

17 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.

18 Immediate and ultimate parent undertaking

The Company was established by contracts as part of an individual mortgage securitisation.

The immediate parent company is Auburn 1 Limited, a company incorporated in the UK and registered in England and Wales. The entire issued share capital of Auburn 1 Limited is held on a discretionary trust basis under a share trust deed by Wilmington Trust SP Services (London) Limited, a company incorporated in the UK and registered in England and Wales. Under the accounting principles, the Company is controlled by CHL which retains an interest in the cash. CHL is also the primary controller of the operating policies of the Company. Accordingly, the Company has been consolidated within the CHL consolidated financial statements.

CHL's ultimate parent undertaking is Cerberus European Residential Holdings B.V. whose registered office is at Oude Utrechtseweg 32, 3743 KN Baarn, The Netherlands (incorporated under the laws of The Netherlands with registered number 62579533).

19 Related party transactions

The Company has related party relationships with CHL, with Wilmington Trust SP Services (London) Limited and with its other directors. The directors undertook no transactions directly with the Company during the year.

The Company undertook the following transactions with CHL in the year:

	During the year ended 31 December 2016 £'000	As at 31 December 2016 £'000	During the year ended 31 December 2015 £'000	As at 31 December 2015 £'000
Loans from the originator	4,777	256,232	5,454	276,589
Deferred consideration due	(723)	(12,375)	(964)	(13,098)
Other administrative expenses paid	(13)	(3)	(43)	(4)
CSA interest payable to CHL	-	-	(68)	-

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Related party transactions - continued

The Company incurred corporate service fee costs payable to Wilmington Trust SP Services (London) Limited of £12,000 in 2016 and 2015.

20 Significant judgements/estimates made by management

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

Significant estimate	Key details
Going concern	Details set out in basis of preparation note.
Loan loss provisioning	Details set out in note 17 (b) (i).
Valuation of interest rate swaps in parent entity	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 16.

21 Segment reporting

The Company's associated net results and assets are located in the United Kingdom and are derived from this business which is 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 17. Additionally, there is no other segmental analysis reviewed by the Company's chief operating decision maker in this regard.