Auburn Securities 4 plc

Annual Report and Financial Statements

Year Ended 31 December 2014

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DIRECTORS AND OTHER INFORMATION

Directors

M H Filer
M Clarke
Wilmington Trust SP Services (London) Limited

Company Secretary and Registered Office

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

Registered Number: 4442874

Independent Auditor

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1

Solicitors

Rosling King LLP
10 Old Bailey
London
EC4M 7NG

Bankers

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

STRATEGIC REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2014

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 ("Capital Home Loans") Since then, the Company has continued to hold the related mortgage assets, the income and capital payments from which have been used to repay debt funding raised as part of the original securitisation transaction Capital Home Loans administers the mortgage book and loan notes on behalf of the Company and further details of this relationship are set out in note 18

The Company has a gross loan balance of £300 6m at 31 December 2014 (2013 £325 1m) This is funded via external securitisation The directors currently expect the notes in issue to be redeemed within 5 years

The Company recorded a lower loss after tax of £26,000 in 2014 (2013 £347,000) owing to the fair value movement in the swap derivatives, step-up interest adjustments and the lower impairment loss arising from improving house price market

The Company continues to focus on running down its existing loan book via

- keeping a tight control over its cost base,
- proactive arrears management which is evidenced by its below industry arrears level with accounts over 3 months in arrears by value at 0 43% at 31 December 2014 (2013 0 75%), and
- high standard of customer services

The weighted average LTV for the loan book has improved from 68% in December 2013 to 60% in December 2014 consistent with the recent rise seen in the UK house price index

The redemption rate in 2014 was 7 54% (2013 5 42%) The increase in redemption rates is due to loan portfolio seasoning, house price increases, improvement in the liquidity in the mortgage market and better general economic conditions in the UK

Details of the results for the year are set out in the statement of comprehensive income on page 19 and in the related notes

Key performance indicators
Key performance indicators utilised by the Company were net interest income, net profits, gross loan book value and bad debt provisioning measures, all of which are set out in more detail in the notes to these financial statements Additionally, the Company closely monitors its loan portfolio arrears performance and its redemption rates which are discussed in the above business review section

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 – these risks are discussed in more detail in note 15

STRATEGIC REPORT - continued

Going concern

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 on-going obligations, in particular for its senior non-recourse debt providers

The Company is dependent on Capital Home Loans to administer the mortgage book and loan notes on behalf of the Company The Company is considered to be a subsidiary of Capital Home Loans owing to the specific terms set out in the governing documentation relating to this entity and its securitised assets Capital Home Loans has incurred losses for the past number of years and expects to register continued losses going forward Capital Home Loans is wholly owned by and is dependent on Permanent TSB Group Holdings Public Limited Company ("PTSBGH") for continued financial support PTSBGH recorded continued losses in 2014, is majority owned by the Irish State and continues to be dependent on Monetary Authority financial support in Ireland.

The directors of PTSBGH 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 in the basis of preparation note within the statement of accounting policies In the PTSBGH 2014 Annual Report the directors of PTSBGH have concluded that there are no material uncertainties which would cast significant doubt on the ability of PTSBGH to continue on a going concern basis for the foreseeable future

The directors of Capital Home Loans in their 2014 annual report have considered various matters in evaluating the appropriateness of the going concern basis of preparation for its financial statements and concluded that continued financial support and funding will likely be available for Capital Home Loans Company and group for a period of at least 12 months from the date of approval of the Capital Home Loans group 2014 consolidated financial statements The intention to continue to support Capital Home Loans has been formally confirmed by Permanent TSB plc to Capital Home Loans The directors of Capital Home Loans have concluded that there is no material uncertainty regarding the ability of PTSBGH to continue to provide financial support to Capital Home Loans which may cast significant doubt on the ability of Capital Home Loans group to continue as a going concern The Directors of Capital Home Loans have also considered the agreement entered into by Permanent TSB plc to sell Capital Home Loans within the period of assessment and have concluded that, this does not give rise to material uncertainty which may cast significant doubt on the ability of Capital Home Loans Company and group to continue as going concern For these reasons, the directors of Capital Home Loans continue to adopt the going concern basis in preparing the Capital Home Loans group financial statements

The Directors of Auburn Securities 4 plc have considered the above in their assessment as to whether the Company has the ability to continue as a going concern. The directors of the Company have noted that the European Commission approved the updated restructuring plan for PTSBGH on 9 April 2015 On 27 April 2015 ptsb announced the successful completion of the €525 million capital raise The directors of Auburn Securities 4 plc have confirmed with PTSBGH that other than the above developments there has been no further significant developments impacting their going concern assessment of PTSBGH

Following on from the above, the directors of the Company, having made due enquiries, continue to adopt the going concern basis in preparing these financial statements If the Capital Home Loans group were unable to continue as a going concern, then, as administrator of the mortgage book and loan notes of this Company, Capital Home Loans, as Servicer, would be unable to continue realising assets and discharging liabilities on behalf of the Company in the normal course of business The financial statements do not include any adjustments that would be required if Capital Home Loans, as administrator of this Company's mortgage book and loan notes, were unable to continue as a going concern

By order of the Board on 3 JUNE 2015 and signed on behalf by

Mark Filer
Wilmington Trust SP Services (London) Limited
Secretary

DIRECTORS' REPORT

The directors note that, as a result of the Strategic report and Directors report regulation 2014 (which are amendments to the Companies Act 2006) some of the reporting which would previously have been contained within the directors' report must now (along with certain other reporting) appear within the strategic report The directors' report now refers to the remaining statutory information requiring disclosure

Dividends
No dividends have been paid or proposed for either of the 2014 or 2013 financial years

Directors
The following directors are in office at the date of approval of the financial statements and have held office since 1 January 2014

M H Filer
M McDermott (resigned 5 December 2014)
Wilmington Trust SP Services (London) Limited
M Clarke (appointed 31 July 2014)

Corporate governance statement
The Company is subject to and complies with UK law comprising the Companies Acts 2006 and the Disclosure and Transparency Rules, and the Listing rules of the UK Listing Authority The Company does not apply additional requirements to those required by the above Each of the service providers engaged by the Company is subject to their own corporate governance requirements

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 the Administrator (Capital Home Loans Limited), 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 15 on financial risk management

According to the UK Listing Authority's Disclosure Rules and Transparency (DTR), if the sole business of the Company relates to the issuing of asset backed securities, the Company is exempt from the requirement to establish an audit committee (under DTR7 1(2)) In this respect, given the predetermined and limited nature of the activities of the Company and the role of the Board, the Company has determined that it is not required to and therefore has not established an audit committee

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

Subsequent events
There have been no significant events affecting the Company since the year end

DIRECTORS' REPORT - continued

Auditors

PricewaterhouseCoopers have been appointed as auditors of the Company, and will continue in office in accordance with the UK Companies Act 2006

On behalf of the board

Mark Filer

Wilmington Trust SP Services (London) Limited
Secretary

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, 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 pwc

INDEPENDENT AUDITORS' 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 2014 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity, the Accounting Policies 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 European Union.

Respective responsibilities of directors and auditors
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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2014 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

pwc

INDEPENDENT AUDITORS' 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 Strategic Report and 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.

Ivan McLoughlin

Ivan McLoughlin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin

3 June 2015

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
Auburn Securities 4 plc is a company 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 2014 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

Basis of preparation - Going concern
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 on-going obligations, in particular for its senior non-recourse debt providers

The company is dependent on Capital Home Loans to administer the mortgage book and loan notes on behalf of the company The company is considered to be a subsidiary of Capital Home Loans owing to the specific terms set out in the governing documentation relating to this entity and its securitised assets Capital Home Loans has incurred losses for the past number of years and expects to register continued losses going forward Capital Home Loans is wholly owned by and is dependent on Permanent TSB Group Holdings Public Limited Company ("PTSBGH") for continued financial support PTSBGH recorded continued losses in 2014, is majority owned by the Irish State and continues to be dependent on Monetary Authority financial support in Ireland

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ACCOUNTING POLICIES - continued

Basis of preparation - Going concern - continued

The directors of Capital Home Loans in their 2014 annual report have considered various matters in evaluating the appropriateness of the going concern basis of preparation for its financial statements and concluded that continued financial support and funding will likely be available for Capital Home Loans company and group for a period of at least 12 months from the date of approval of the Capital Home Loans group 2014 consolidated financial statements The intention to continue to support Capital Home Loans has been formally confirmed by Permanent TSB plc to Capital Home Loans The directors of Capital Home Loans have concluded that there is no material uncertainty regarding the ability of PTSBGH to continue to provide financial support to Capital Home Loans which may cast significant doubt on the ability of Capital Home Loans group to continue as a going concern The Directors of Capital Home Loans have also considered the agreement entered into by Permanent TSB plc to sell Capital Home Loans within the period of assessment and have concluded that, this does not give rise to material uncertainty which may cast significant doubt on the ability of Capital Home Loans company and group to continue as going concern For these reasons, the directors of Capital Home Loans continue to adopt the going concern basis in preparing the Capital Home Loans group financial statements

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Following on from the above, the directors of the company, having made due enquiries, continue to adopt the going concern basis in preparing these financial statements If the Capital Home Loans group were unable to continue as a going concern, then, as administrator of the mortgage book and loan notes of this company, Capital Home Loans, as Servicer, would be unable to continue realising assets and discharging liabilities on behalf of the company in the normal course of business The financial statements do not include any adjustments that would be required if Capital Home Loans, as administrator of this company's mortgage book and loan notes, were unable to continue as a going concern

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 separate from any of the company's own (unrestricted) cash balances in the statement of financial position and 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

ACCOUNTING POLICIES - continued

Loans and advances - continued

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 which 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

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 14

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

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 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 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 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

Operating leases

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

Income tax expense

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

Dividends

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

Financial liabilities

Financial liabilities include debt securities issued 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

ACCOUNTING POLICIES - continued

New and revised IFRSs in issue but not yet effective

Topic	Description of change	Effective date	Impact
Annual improvements 2012	These annual improvements amend standards from the 2010 – 2012 reporting cycle It includes changes to IFRS 2, "Share based payments" clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition' IFRS 3, "Business combinations" clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments Presentation' It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in the income statement IFRS 8, "Operating segments" is amended to require disclosure of the judgements made by management in aggregating operating segments It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported IFRS 13, "Fair value" amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial IAS 16, "Property, plant and equipment" and IAS 28, "Intangible assets" are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model IAS 24,"'Related party disclosures" is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity') Disclosure of the amounts charged to the reporting entity is required	Periods beginning on or after 1 July 2014 Endorsed on 11 December 2014 (Endorsed for 1 February 2015)	The implementation of these amendments is expected to have no impact on the financial statements of the Company

ACCOUNTING POLICIES - continued

New and revised IFRS's in issue but not yet effective - continued

Topic	Description of change	Effective date	Impact
Annual improvements 2013	These annual improvements amend standards from the 2011 – 2013 reporting cycle It includes changes to IFRS 3, "Business combinations" is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint venture under IFRS 11 IFRS 13, "Fair value measurement" is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including on-financial contracts) within the scope of IAS 39 or IFRS 9 IAS 40, "Investment property" is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive IAS 40 assists users to distinguish between investment property and owner-occupied property Preparers also need to consider the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination	Periods beginning on or after 1 July 2014 Endorsed on 18 December 2014 (Endorsed for 1 January 2015)	The implementation of these amendments is expected to have no impact on the financial statements of the Company
IFRS 9, "Financial instruments"	The complete version of IFRS 9 replaces most of the guidance in IAS 39 IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets amortised cost, fair value through Other Comprehensive Income and fair value through P&L The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value, through profit or loss IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests It requires an economic relationship between the hedged item and hedging instruments and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes Contemporaneous documentation is still required but is different to that currently prepared under IAS 39	Periods beginning on or after 1 January 2018 Early application is permitted If an entity elects to early apply it must apply all of the requirements at the same time with the following exception Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases	Application of IFRS 9 is expected to have significant impact on Companies financial position and performance However, the Company has to quantify the full potential impact of this standard The standard was published on 24 July 2014 and has yet to be endorsed by the EU

ACCOUNTING POLICIES - continued

New and revised IFRS's in issue but not yet effective - continued

Topic	Description of change	Effective date	Impact
Amendment to IFRS 11, "Joint arrangements" regarding acquisition of an interest in a joint operation.	This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control	Periods beginning on or after 1 January 2016 Yet to be EU endorsed	The implementation of these amendments is expected to have no impact on the financial statements of the Company
Amendment to IAS 16, "Property, plant and equipment" and to IAS 28, "Intangible asset" regarding depreciation and amortisation.	This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset The presumption may only be rebutted in certain limited circumstances These are where the intangible asset is expressed as a measure of revenue, or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated	Periods beginning on or after 1 January 2016 Yet to be EU endorsed	The implementation of these amendments is expected to have no impact on the financial statements of the Company
Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture.	These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture A full gain or loss is recognised when a transaction involves a business A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary	Periods beginning on or after 1 January 2016 Yet to be EU endorsed	The implementation of these amendments is expected to have no impact on the financial statements of the Company
Amendment to IAS 27, 'Separate financial statements' regarding the equity method	The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements	Periods beginning on or after 1 January 2016 Yet to be EU endorsed	The implementation of these amendments is expected to have no impact on the financial statements of the Company

ACCOUNTING POLICIES - continued

New and revised IFRS's in issue but not yet effective - continued

Topic	Description of change	Effective date	Impact
Annual improvements 2014	IFRS 7, "Financial instruments Disclosures" – There are two amendments - Servicing contracts – if an entity transfers a financial asset to third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets The standard provides guidance about what is meant by continuing involvement The amendment is prospective with an option to apply retrospectively There is a consequential amendment to IFRS 1 to give the same relief to first time adopters - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, "Disclosure – Offsetting financial assets and financial liabilities" is not specifically required for all interim periods unless required by IAS 34 This amendment is retrospective	Periods beginning on or after 1 January 2016 Yet to be EU endorsed	The implementation of these amendments is expected to have no impact on the financial statements of the Company

Adoption of new accounting standards

New and revised IFRSs affecting amounts reported and/or disclosures in these financial statements

In the current year, the entity has applied the following new and revised IFRSs issued by the IASB and endorsed by the EU that are mandatorily effective for accounting periods that began on or after 1 January 2014

(a) IAS 39 – Financial instruments recognition and measurement amendment
The Company applied this amendment which did not have an impact on the financial statements This amendment was introduced to provide relief following the issuance of new laws and regulations which required entities to novate over the counter derivatives to a clearing counterparty Prior to the introduction of this amendment, under IAS 39 if a derivative instrument in a hedging relationship is novated to a clearing counterparty the discontinued hedge accounting should be applied which may cause hedging relationships to become ineffective

(b) IAS 36 – Impairment of Assets
The Company applied this amendment which did not have an impact on the financial statements This amendment was introduced to reverse the unintended requirement in IFRS 13 "Fair Value Measurement" to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated Under the amendment, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed

(c) Amendments to IAS 32 - Financial Instruments: presentation - Offsetting Financial Assets and Financial Liabilities
The Company applied this amendment which did not have an impact on the financial statements The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement

STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Cash at bank - restricted	16	102,339	100,097
Derivative asset	2	2,066	2,341
Loans and advances to customers	1	299,805	323,634
Prepayments and accrued income	3	10	11
Deferred tax asset	7	491	494
Total asset		404,711	426,577
Liabilities			
Bank loans and overdraft	4	45,000	45,000
Non-recourse funding	5	307,033	330,716
Accruals and deferred income	6	54,491	52,648
Total liabilities		406,524	428,364
Equity			
Share capital	8	12	12
Retained earnings	9	(1,825)	(1,799)
Total equity attributable to equity holders of the company	9	(1,813)	(1,787)
Total liabilities and equity		404,711	426,577

The financial statements on pages 10 to 41 were approved by the board of directors on 3 June 2015 and were signed on its behalf by

Mark Filer

Wilmington Trust SP Services (London) Limited
Director

STATEMENT OF COMPREHENSIVE INCOME
Year Ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Interest income	10	6,243	6,725
Interest expense	11	(4,477)	(4,824)
Net interest income - continuing operations		1,766	1,901
Other operating expenses		(1,885)	(1,532)
Impairment credit/(losses) on loans and advances	1	96	(734)
Loss before income tax - continuing operations	12	(23)	(365)
Income tax (charge)/credit	13	(3)	18
Total comprehensive loss for the year	9	(26)	(347)
Loss attributable to the owners of the company		(26)	(347)

STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2014

	Share capital £'000	Retained earnings £'000	Total equity £'000
31 December 2014			
Balance at beginning of the year	12	(1,799)	(1,787)
Total comprehensive income for the year - loss	-	(26)	(26)
Balance at end of year	12	(1,825)	(1,813)
31 December 2013			
Balance at beginning of the year	12	(1,452)	(1,440)
Total comprehensive income for the year - loss	-	(347)	(347)
Balance at end of year	12	(1,799)	(1,787)

STATEMENT OF CASH FLOWS
Year Ended 31 December 2014

	2014 £'000	2013 £'000
Cash flows from operating activities		
Loss before taxation for year	(23)	(365)
Adjustments for		
(Increase)/decrease in assets		
Loans and advances to customers	23,829	19,119
Prepayments and accrued income	1	(1)
Derivative assets	275	544
Increase/(decrease) in liabilities		
Non-recourse funding	(23,683)	(18,603)
Accruals and deferred income	1,843	(2,355)
Net cash flows arising from operating activities	2,242	(1,661)
Cash flows from financing activities		
Investment in restricted cash	(2,242)	1,661
Net movement in cash and cash equivalents		
Cash and cash equivalents at 1 January 2014	-	-
Cash and cash equivalents at 31 December 2014	-	-

NOTES TO THE FINANCIAL STATEMENTS

1 Loans and advances to customers

	2014 £'000	2013 £'000
Loans and advances to customers	300,613	325,113
Less impairment provisions - see below	(808)	(1,479)
All represented by residential mortgages in the UK	299,805	323,634

In October 2004, the company purchased the rights to certain cash flows 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

Impairment losses on loans and advances	2014 £'000	2013 £'000
Balance at beginning of year	1,479	966
(Credited)/charged to statement of comprehensive income	(96)	734
Amounts written off	(575)	(221)
Balance at end of year	808	1,479

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

	2014 £'000	2013 £'000
Specific provision	743	1,119
Collective provision	65	360
Balance at end of year	808	1,479

Included in interest income is a total of £0 04m in 2014 (2013 £0 06m) accrued on impaired financial assets of the company

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Derivative financial instruments

	Positive/ (negative) fair value 2014 £'000	Notional amount 2014 £'000	Positive/ (negative) fair value 2013 £'000	Notional amount 2013 £'000
Derivative assets				
Interest rate swaps with Capital Home Loans Limited	2,066	299,805	2,341	323,634

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 net interest income

3 Prepayments and accrued income

	2014 £'000	2013 £'000
Other debtors	10	11

All amounts fall due within one year

4 Bank loans and overdrafts

	2014 £'000	2013 £'000
Amounts due to other banks and credit institutions	45,000	45,000

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

5 Non-recourse funding

	2014 £'000	2013 £'000
Mortgage backed loan notes	302,528	325,967
Plus adjustment to effective interest rate	4,505	4,749
	307,033	330,716

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Non-recourse funding - continued

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)	170,028	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

6 Accruals and deferred income

	2014 £'000	2013 £'000
Deferred consideration	12,916	12,081
Amounts due to Capital Home Loans	41,134	40,127
Accruals and deferred income	441	440
	54,491	52,648

During 2013 and 2014, 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 28 million (2013 £40 05 million) as agreed with the rating agency in each case

NOTES TO THE FINANCIAL STATEMENTS - continued

7 Deferred tax (assets)/liabilities

	2014 £'000	2013 £'000
At start of year	(494)	(476)
Credited in year (see note 13)	3	(18)
At end of year	(491)	(494)
Deferred tax asset - effective interest rate and others	(905)	(970)
Deferred tax liability - derivatives	414	476
At end of year	(491)	(494)

Deferred tax has been calculated using rates enacted or substantively enacted at the balance sheet date The rate used at 31 December 2014 was 20 25%/20% (2013 21 5%/20%) depending on when the underlying tax attribute is expected to reverse

Deferred tax has been calculated at 20 25%/20% as Finance Act 2012 (passed July 2012), introduced the 23% rate from 1 April 2013, and Finance Act 2013 passed in July 2013, and therefore prior to 2013 balance sheet date, introduced the 21% rate from 1 April 2014 Finance Act 2013 also enacted the 20% tax rate with effect from 1 April 2015

8 Called up share capital

	2014 £'000	2013 £'000
Authorised:		
Ordinary shares of £1 each	50	50
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	-	-
Allotted, called up and partly paid		
49,998 ordinary shares of £1 each of which £0 25 has been paid up	12	12
	12	12

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Reconciliation of movement in shareholders' equity

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 31 December 2014			
At beginning of year	12	(1,799)	(1,787)
Changes in equity for 2014			
Loss on ordinary activities after taxation	-	(26)	(26)
Total shareholders' equity	12	(1,825)	(1,813)
At 31 December 2013			
At beginning of year	12	(1,452)	(1,440)
Changes in equity for 2013			
Loss on ordinary activities after taxation	-	(347)	(347)
Total shareholders' equity	12	(1,799)	(1,787)

10 Interest income

	2014 £'000	2013 £'000
Mortgage interest receivable	5,917	6,412
Deposit interest receivable	270	260
Other income	56	53
	6,243	6,725

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

11 Interest expense

	2014 £'000	2013 £'000
On mortgage backed loan notes	4,186	4,374
On subordinated loan	-	15
Additional interest released on extension of loan notes	(244)	(170)
Other interest	403	401
CSA interest payable to CHL	121	112
On interest rate swaps	11	92
	4,477	4,824

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Loss before income tax - continuing operations

	2014 £'000	2013 £'000
Included within profit before tax are the following		
Auditors' remuneration		
- audit fee	4	4
- other non-audit work	6	13
Deferred consideration	1,488	868
Fair value losses on interest rate swaps	275	544

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 18)

13 Income tax charge/(credit)

	2014 £'000	2013 £'000
Deferred tax (see note 7)	3	(18)
Total income tax charge/(credit)	3	(18)

The tax assessed for the period differs from the standard rate of corporation tax in the United Kingdom of 21 5% (2013 23 25%) The differences are explained below

	2014 £'000	2013 £'000
Loss before taxation	(23)	(365)
Loss by standard rate of corporation tax in UK of 21 5% (2013 23 25%)	(5)	(85)
Effects of		
Other	8	67
Effective tax charge/(credit) in year	3	(18)

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)

NOTES TO THE FINANCIAL STATEMENTS - continued

14 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 2014				
Assets				
Cash at bank - restricted	102,339	102,339	-	-
Loans and advances to customers	299,805	269,825	-	-
Derivative assets	-	-	2,066	2,066
	402,144	372,164	2,066	2,066
Liabilities				
Non recourse funding	307,033	289,969	-	-
Deferred consideration	12,916	-	-	-
Amounts due to Capital Home Loans	41,134	41,134	-	-
Bank loans and overdrafts	45,000	45,000	-	-
	406,083	376,103	-	-

	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 2013				
Assets				
Cash at bank - restricted	100,097	100,097	-	-
Loans and advances to customers	323,634	266,998	-	-
Derivative assets	-	-	2,341	2,341
	423,731	367,095	2,341	2,341
Liabilities				
Non recourse funding	330,716	286,161	-	-
Deferred consideration	12,081	-	-	-
Amounts due to Capital Home Loans	40,127	40,127	-	-
Bank loans and overdrafts	45,000	45,000	-	-
	427,924	371,288	-	-

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Fair values of financial statements - continued

The following table sets out the fair values of financial instruments that the company holds at 31 December 2014 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 2014					
Assets					
Cash at bank - restricted	102,339	102,339	-	-	102,339
Loans and advances to customers	299,805	-	-	269,825	269,825
Derivative assets	2,066	-	-	2,066	2,066
	404,210	102,339	-	271,891	374,230
Liabilities					
Non recourse funding	307,033	-	-	289,969	289,969
Deferred consideration	12,916	-	-	-	-
Amounts due to Capital Home Loans	41,134	41,134	-	-	41,134
Bank loans and overdrafts	45,000	45,000	-	-	45,000
	406,083	86,134	-	289,969	376,103
As at 31 December 2013					
Assets					
Cash at bank - restricted	100,097	100,097	-	-	100,097
Loans and advances to customers	323,634	-	-	266,998	266,998
Derivative assets	2,341	-	2,341	-	2,341
	426,072	100,097	2,341	266,998	369,436
Liabilities					
Non recourse funding	330,716	-	-	326,288	326,288
Deferred consideration	12,081	-	-	-	-
Amounts due to Capital Home Loans	40,127	-	-	-	-
Bank loans and overdrafts	45,000	45,000	-	-	45,000
	427,924	45,000	-	326,288	371,288

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Fair values of financial statements - continued

Typically 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 mortgages with similar profiles adjusting for the appropriate credit spread differential and discounting the relevant projected cash flows to fair value Where external evidence of fair value is available, this is used (e g bid prices for loan books)
- 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 65%,
  - Assumed redemption rate 5 7% 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 2014 £0 3m loss *(2013 £0 5m loss)* 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 reclassified level 3, due to the unobservable inputs being the significant drivers of the model valuations

NOTES TO THE FINANCIAL STATEMENTS - continued

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

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 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

15 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 and advances to customers - exposure to credit risk**	2014 £'000	2013 £'000
Total carrying amount - maximum exposure to credit risk	299,805	323,634
Individually impaired	3,025	4,546
Allowance for impairment	(743)	(1,119)
Carrying amount	2,282	3,427
Collectively impaired	1,470	2,015
Allowance for impairment	(65)	(360)
Carrying amount	1,405	1,655
Neither past due nor impaired - carrying amount	284,763	307,381
Includes accounts with renegotiated terms	11,355	11,171
Total carrying amount	299,805	323,634

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

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Financial risk management - continued

(b) Credit risk - continued

(i) Loans and advances to customers - exposure to credit risk - 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

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

	2014	2013
	%	%
Less than 50%	20	13
50%- 70%	58	40
71%- 90%	21	43
91%- 100%	1	4
At end of year	100	100

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Financial risk management - continued

(b) Credit risk - continued

(i) Loans and advances to customers - continued

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

	2014 £'000	2013 £'000
Concentration by sector - carrying amount		
Residential	29,835	32,441
Buy to let	270,778	292,672
Less Impairment provisions	(808)	(1,479)
	299,805	323,634
Concentration by location - carrying amount		
London & South East	143,625	156,688
North East	24,432	26,144
North Wales & North West	22,857	24,149
South & South West	60,541	65,955
Midlands	36,844	39,019
Other UK	12,314	13,158
Less Impairment provisions	(808)	(1,479)
	299,805	323,634

(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

(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 (B+) 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

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 2014 and 2013

At 31 December 2014	Carrying amount	Gross contractual cash flow	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash – restricted	102,339	102,339	102,339	-	-	-	-
Derivative asset	2,066	2,066	39	78	352	1,597	-
Loans and advances to customers	299,805	367,388	1,045	1,658	6,247	51,160	307,278
Prepayments and accrued income	10	10	10	-	-	-	-
Total assets	404,220	471,803	103,433	1,736	6,599	52,757	307,278
Liabilities							
Bank loans and overdrafts	45,000	45,000	-	-	45,000	-	-
Non-recourse funding	307,033	352,142	923	1,412	5,133	45,525	299,149
Accruals and deferred income	54,491	54,491	54,491	-	-	-	-
Total liabilities	406,524	451,633	55,414	1,412	50,133	45,525	299,149
Net cash flows		20,170	48,019	324	(43,534)	7,232	8,129

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Financial risk management - continued

(c) Liquidity risk - continued

At 31 December 2013	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	100,097	100,097	100,097	-	-	-	-
Derivative asset	2,341	2,341	45	87	390	1,819	-
Loans and advances to customers	323,634	402,448	1,179	2,297	8,391	45,555	345,026
Prepayments and accrued income	11	11	11	-	-	-	-
Total assets	426,083	504,897	101,332	2,384	8,781	47,374	345,026
Liabilities							
Bank loans and overdrafts	45,000	45,000	-	-	45,000	-	-
Non-recourse funding	330,716	381,619	1,030	1,998	7,045	38,578	332,968
Accruals and deferred income	52,648	52,648	52,648	-	-	-	-
Total liabilities	428,364	479,267	53,678	1,998	52,045	38,578	332,968
Net cash flows		25,630	47,654	386	(43,264)	8,796	12,058

NOTES TO THE FINANCIAL STATEMENTS - continued

15 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 2014	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	102,339	-	-	-	-	-	-	-	102,339
Loans & advances to customers	299,805	-	-	-	-	-	-	-	299,805
Total financial assets	402,144	-	-	-	-	-	-	-	402,144
Bank loans and overdrafts	(45,000)	-	-	-	-	-	-	-	(45,000)
Non-recourse funding	(307,033)	-	-	-	-	-	-	-	(307,033)
Total financial liabilities	(352,033)	-	-	-	-	-	-	-	(352,033)
Net interest repricing gap	50,111	-	-	-	-	-	-	-	50,111
Cumulative repricing gap	50,111	50,111	50,111	50,111	50,111	50,111	50,111	50,111	50,111

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Financial risk management - continued

(d) Interest rate risk - continued

As at 31 December 2013	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	100,097	-	-	-	-	-	-	-	100,097
Loans & advances to customers	323,634	-	-	-	-	-	-	-	323,634
Total financial assets	423,731	-	-	-	-	-	-	-	423,731
Bank loans and overdrafts	(45,000)	-	-	-	-	-	-	-	(45,000)
Non-recourse funding	(330,716)	-	-	-	-	-	-	-	(330,716)
Total financial liabilities	(375,716)	-	-	-	-	-	-	-	(375,716)
Net interest repricing gap	48,015	-	-	-	-	-	-	-	48,015
Cumulative repricing gap	48,015	48,015	48,015	48,015	48,015	48,015	48,015	48,015	48,015

NOTES TO THE FINANCIAL STATEMENTS - 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 £102 3m (2013 £100 1m), 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 Capital Home Loans is the primary beneficiary of the operating policies of the company Accordingly, this entity has been consolidated within the Capital Home Loans consolidated financial statements, which are in turn 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

18 Related party transactions

The company has related party relationships with its parent undertaking Capital Home Loans Limited, Permanent TSB plc, with its ultimate parent undertaking, Permanent TSB Group Holdings plc, 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 Capital Home Loans Limited in the year

	During the year ended 31 December 2014 £'000	As at 31 December 2014 £'000	During the year ended 31 December 2013 £'000	As at 31 December 2013 £'000
Loans and advances to customers	5,917	299,805	6,412	323,634
Deferred consideration due	(1,488)	(12,916)	(868)	(12,081)
Additional capital amounts due	1,007	(41,134)	1,937	(40,127)
Interest swap amounts due	(11)	6	(92)	(7)
Other administrative expenses paid	(43)	(4)	(43)	(4)
CSA interest payable to CHL	(121)	(38)	(112)	(10)
Derivative Financial Instrument	(275)	2,066	(544)	2,341

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Related party transactions - continued

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

	During the year ended 31 December 2014 £'000	As at 31 December 2014 £'000	During the year ended 31 December 2013 £'000	As at 31 December 2013 £'000
Other administrative expenses	(10)	(22)	(10)	(12)

The company incurred corporate service fee costs payable to Wilmington Trust SP Services (London) Limited of £12,000 in 2014 and 2013

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 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 14
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 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 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 3 June 2015