Marble Arch Residential Securitisation No. 4 Parent Limited

Report and Financial Statements

30 November 2007

Registered No. 05819309

Registered No: 05819309

Directors
J-C Schroeder
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Wilmington Trust SP Services (London) Limited

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Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 30 November 2007.

Principal activities

The principal activity of the Company is that of a holding company. The principal activity of the Group is the investment in mortgage loans secured by first and second charges over residential properties within the United Kingdom.

Business review

The Group profit and loss account for the year ended 30 November 2007 is set out on page 9. Both the level of business during the year and the financial position of the Group at the year end were satisfactory.

As required by Financial Reporting Standard No 26, the result for the year includes a fair value gain on derivative financial instruments of £8,267,545 (2006: (£14,778,977) loss).

At the year end the mortgage balance, after effective interest rate adjustments, was £583,991,726 (2006: £821,905,440). At the December 2007 Interest Payment Date, the Group held the following mortgage loans excluding any effective interest rate adjustments:

	Principal balance £000	*Number of loans*
First mortgages	426,641	3,064
Second mortgages	114,198	6,130
Total	540,839	9,194

These mortgages provide security against loan notes in issue totalling £540,838,943 as at the December 2007 Interest Payment date. The directors consider the mortgage loans to be adequate collateral against the loan notes in issue.

The mortgage loans generated a weighted average margin over funding costs of 2.82% during the year. The weighted average cost of funds for the year was 4.21%. The directors consider there to be adequate arrangements in place to hedge against future movements in cost of funds.

Directors' report

Business review (continued)

The mortgage loans exhibited the following quarterly arrears profile.

	Q1	*Q2*	*Q3*	*Q4*
	%	%	%	%
Delinquencies days – (excluding repossessions)				
Current	87.55	81.71	80.93	77.60
> 30 <= 60	5.80	7.96	8.08	8.77
> 60 <= 90	3.27	4.35	4.22	4.98
> 90 <= 120	1.40	2.00	2.44	2.98
> 120	1.98	3.98	4.33	5.67
Total	100.00	100.00	100.00	100.00

At the March 2008 Interest Payment Date following year end, the Group held £478,281,164 of mortgage loans, 10.80% of the balance was greater than 3 months in arrears. At the June 2008 Interest Payment Date, the Group held £434,575,515 of mortgage loans, 12.92% was greater than 3 months in arrears. At the September 2008 Interest Payment Date, the Group held £404,654,526 of mortgage loans, 12.38% was greater than 3 months in arrears. At the December 2008 Interest Payment Date, the Group held £382,200,073 of mortgage loans, 13.64% was greater than 3 months in arrears.

The directors consider the level of arrears to be within expectations and have not made any adjustment to the provisions recorded as at the year end.

The performance of the mortgage loans during the year to November 2007 enabled deferred consideration of £nil (2006: £nil) to be paid.

Fair value

Note 19 discloses the fair values of the Group's mortgage asset receivables and non recourse loan notes. The directors note that as at 30 November 2007 the respective fair values of the mortgage asset receivables and non recourse loan notes are less than the carrying values recorded in the balance sheet.

The directors believe that this is reasonable, based on the global contraction of credit markets, the challenges faced by the US sub prime mortgage sector and the decline in market demand for mortgage backed securities.

The fair values are indicative of the amount, based on calibrations to observed secondary traded UK prime mortgage assets, for which the mortgage assets might be sold, or the loan notes settled, between willing parties in an arm's length transaction although in reality no liquid secondary market exists for the mortgage asset receivables or the non recourse loan notes.

The fair values disclosed do not necessarily represent the directors' view of the current value of the predicted future cash flows on either the mortgage asset receivables or non recourse loan notes.

Dividend

The directors do not recommend the payment of a dividend for the year (2006: £nil).

Directors' report

Post balance sheet events

On 3 October 2008, the interest rate swap counterparty Lehman Brothers Special Financing Inc. filed for Chapter 11 bankruptcy. As a direct result the Group was not paid £884,247 that was due under these swaps at the September 2008 Interest Payment Date. At this stage it is anticipated that the Group is likely to continue to make losses on these swaps, however it is not possible to quantify the amount of these losses.

Policy and practice on payment of creditors

The Group does not follow any stated code on payment practice. It is the Group's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the suppliers at the outset. It is the policy of the Group to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year end (2006: nil days).

Directors

The directors who held office during the year, and subsequent to year end, were as follows:

R G Baker (resigned 28 February 2008)
M H Filer
Wilmington Trust SP Services (London) Ltd
J-C Schroeder (appointed 28 February 2008)

Clifford Chance Secretaries (CCA) Limited resigned as Company Secretary on 6 February 2009, and Wilmington Trust SP Services (London) Limited was appointed as secretary to the Company on 6 February 2009.

Principal risks and uncertainties

Financial instrument risks

The financial instruments held by the Group comprise mortgages, borrowings, cash and various other items (such as trade debtors, trade creditors etc) that arise directly from its operations.

The Group also enters into derivatives transactions where necessary (principally interest rate and currency swaps) to manage its interest rate risk and currency risk.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, currency risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages purchased by the Group during the year were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the Group considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Directors' report

Principal risks and uncertainties (continued)

Foreign exchange risk

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying sterling mortgage loans. The Group minimises its exposure to foreign currency risk by ensuring that the currency characteristics of its assets and liabilities are similar. Where this is not possible the Group considers the use of derivative financial instruments to mitigate any foreign exchange risk.

Liquidity risks

The Group's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the loan notes. In addition the Group holds a minimum cash balance to manage short term liquidity requirements.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Approved by the board of directors and signed on behalf of the board.

Director

Date: 8 MAY 2009

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Ernst & Young

Independent auditors' report

to the members of Marble Arch Residential Securitisation No. 4 Parent Limited

We have audited the group and parent company financial statements (the "financial statements") of Marble Arch Residential Securitisation No. 4 Parent Limited for the year ended 30 November 2007 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Marble Arch Residential Securitisation No. 4 Parent Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 November 2007 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

8 May 2009

Consolidated profit and loss account

for the year ended 30 November 2007

	Notes	*Year ended 30 November 2007 £000*	*Period ended 30 November 2006 £000 (Restated)*
Interest receivable and similar income	2	100,287	10,054
Interest payable and similar charges	3	(69,100)	(5,847)
Net interest receivable		31,187	4,207
Other operating income	4	8,743	–
Net fair value gain/(loss) on derivatives		8,268	(14,779)
Unrealised exchange gain on restatement of loan liabilities		765	8,508
Total operating income		48,963	(2,064)
Operating expenses		(23,621)	960
Profit/(loss) on ordinary activities before taxation	5	25,342	(2,239)
Tax on profit/(loss) on ordinary activities	6	(6,842)	426
Profit/(loss) on ordinary activities after taxation	17	18,500	(1,813)

The profit for the year was derived from continuing operations.

There were no recognised gains or losses other than the profit for the year, accordingly no statement of recognised gains and losses is given.

The notes on pages 12 to 26 form part of these financial statements.

Consolidated balance sheet

at 30 November 2007

	Notes	2007 £000	2006 £000 (Restated)
Current assets			
Debtors:			
Amounts falling due after one year	12	381,404	804,123
Amounts falling due within one year	13	197,084	31,949
Cash at bank and in hand		90,824	51,745
		669,312	887,817
Creditors: amounts falling due within one year	14	(39,857)	(30,741)
Net current assets		629,455	857,076
Creditors: amounts falling due after one year	15	(612,768)	(858,889)
Net assets		16,687	(1,813)
Capital and reserves			
Called up share capital	16	–	–
Profit and loss account	17	16,687	(1,813)
Shareholders' funds	18	16,687	(1,813)

The notes on pages 12 to 26 form part of these financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:

Director

Date: 8 MAY 2009

Company balance sheet

at 30 November 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Investments	8	13	13
Creditors		(13)	(13)
Net assets		–	–
Capital and reserves			
Called up share capital	16	–	–
Profit and loss account	17	–	–
Shareholder's funds	18	–	–

The notes on pages 12 to 26 form part of these financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:

Director

Date 8 MAY 2009

Notes to the financial statements

at 30 November 2007

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention, except for derivative financial instruments which are carried at fair value through the profit and loss. The financial statements have been prepared on a going concern basis. Certain balances in the 2006 comparatives have been reclassified to be consistent with the current year presentation.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the year ended 30 November 2007. All the subsidiaries are accounted for using acquisition accounting.

In accordance with section 230 (4) of the Companies Act 1985, Marble Arch Residential Securitisation No. 4 Parent Limited is exempt from the requirement to present its own profit and loss account. The amount of profit for the year dealt with in the financial statements of Marble Arch Residential Securitisation No. 4 Parent Limited is disclosed in note 17 to the financial statements.

Income recognition

Interest income on mortgage loan assets is recognised in the profit and loss account on an Effective Interest Rate (EIR) basis. The EIR recognises revenue equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan.

Mortgage loans

Mortgage loans are valued on the amortised cost basis using the effective interest rate method less provision made to reduce the value of the loans to their estimated recoverable amount. Provisions are made against mortgages when in the opinion of the directors, credit risk or economic risk make recovery doubtful. A loan premium is recognised where mortgages are acquired at amounts in excess of the amount recoverable from customers. This loan premium is amortised over the expected life of the mortgages.

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

A charge for impairment would be recognised where there is a risk that the income on the loan to portfolio seller will be significantly reduced. This could occur if the credit quality of the mortgage assets that are pledged as collateral for the loans deteriorated significantly and is calculated in accordance with the provisions policy below.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Provisions

Specific provisions for losses on loans and advances to customers are made throughout the year and at the year-end on a case by case basis (calculated with reference to the probability of the loan defaulting and the value of the security held against the loan). The specific provision for properties in possession is based on the balance outstanding less a discounted valuation of the security held (with adjustments for expenses of sale).

A provision for losses is made for the collective risk of default by customers which is inherent in a mortgage portfolio on balances excluding those in arrears and possession provided for specifically.

Premium paid to mortgage loan originator

Gross cash receipts received by the Group on the issue of Turbo Notes are paid to Southern Pacific Mortgage Limited as a premium on acquisition of the mortgage assets. The premium is capitalised by the Company and amortised over the expected repayment period of the Class DTc, ETc and FTc Notes mentioned in Note 15. The balance is shown in debtors amounts falling due within one year.

Discount on purchase of mortgage assets

Cash received from the originator on acquisition of the mortgage assets to cover start up costs is amortised over the expected life of the facility. The amortised balance is shown in creditors amounts falling due within one year with the income for the period included in interest receivable.

Fixed asset investment

The Group's investment in subsidiary companies is stated at cost, less provision for diminution in value where the directors consider this necessary.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Southern Pacific Mortgage Limited. The payment of these amounts is conditional on the performance of the acquired mortgages.

Under the terms of the securitisation the Group earns an annual profit in an amount equal to 0.01 per cent of the aggregate balances of the loans in the mortgage pool. This is reflected in the profit and loss before any movements on fair value gains and losses on derivatives and Effective Interest Rate adjustments.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Deferred consideration (continued)

Profits in excess of 0.01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation, as deferred consideration. Accordingly amounts owing to or prepaid to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors, or debtors respectively in the balance sheet.

Derivatives

The Group use derivative financial instruments to hedge its exposure to interest rate and currency risk arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Financial Reporting Standard No. 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. The fair value of the interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date.

Interest rate caps

During the year, a series of amortising interest rate caps were entered into in order to manage the Group's interest rate risk in relation to fixed rate mortgage loans. The derivative contracts matched the expected profile of the run-off of the fixed rate loans.

Currency swaps

A series of currency swaps has been entered into in order to manage the Group's currency rate exposure in relation to non-sterling denominated Loan Notes. The derivative contracts match the expected profile of the run-off of the non-sterling denominated Loan Notes.

Foreign currencies

Mortgage-backed floating rate notes included in financial liabilities, denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at the reporting date. Any exchange differences arising in the year on the settlement or retranslation of foreign currency liabilities are included in the profit and loss account.

Issue costs

Initial issue costs incurred in arranging funding facilities are amortised over the life of the facility. Unamortised initial issue costs are deducted from the associated liability in accordance with Financial Reporting Standard No.26 and costs amortised in the year are included in interest payable.

Cash flow statement

Under Financial Reporting Standard No.1 (Revised), the Group is exempt from the requirement to prepare a cash flow statement on the grounds that it is included in consolidated financial statements under Financial Reporting Standard No. 5.

Related party transactions

Southern Pacific Mortgage Limited retains an interest in the cashflows and profits of Marble Arch Residential Securitisation No. 4 plc, a wholly owned subsidiary of Marble Arch Residential Securitisation No. 4 Parent Limited. Accordingly Southern Pacific Mortgage Limited, whilst having no direct investment in the Group, is treated as a related party.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Turnover

The Group's income and trade are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented.

2. Interest receivable and similar income

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000 (Restated)*
On mortgage loans	87,507	10,054
Other interest	4,088	–
Amortisation of start up costs contributed by the mortgage loan originator	8,692	–
	100,287	10,054

3. Interest payable and similar charges

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000 (Restated)*
Mortgage backed loan notes	54,471	4,633
Amortisation of capitalised issue costs	1,014	67
Other interest payable	50	12
Amortisation of premium paid to mortgage loan originator	13,565	1,135
	69,100	5,847

4. Other operating income

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000*
Redemption fees	8,221	–
Sundry fee income	522	–
	8,743	–

Notes to the financial statements

at 30 November 2007

5. Profit/(loss) on ordinary activities before taxation

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000 (Restated)*
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration – group	13	11
Auditors' remuneration – company	4	3
Provision for mortgage losses	9,628	166
Amortisation premium	819	40
Deferred consideration	380	(380)
Bad debts incurred on mortgage loans	1,172	–

6. Tax on profit/(loss) on ordinary activities

(a) Analysis of tax charge in the year

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000*
Current tax:		
UK corporation tax on profit/(loss) in the year/period	–	1
Total current tax (note 6(b))	–	1
Deferred tax:		
Origination and reversal of timing differences	6,864	(427)
Effect of rate change on opening liability	(22)	–
Total deferred tax charge/(credit) (note 20)	6,842	(427)
Tax on profit/(loss) on ordinary activities	6,842	(426)

Notes to the financial statements

at 30 November 2007

6. Tax on profit/(loss) on ordinary activities (continued)

(b) Factors affecting the tax charge in the year

The tax assessed for the year is lower than the UK Corporation rate applicable to small companies of 20% (period ended 30 November 2006: 19%). The factors affecting the tax charge are explained below:

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000*
Profit/(loss) on ordinary activities before tax	25,342	(2,239)
Profit/(loss) on ordinary activities multiplied by the small companies rate of corporation tax of 20% (period ended 30 November 2006: 19%)	5,068	(426)
Effects of:		
Short-term timing differences	(6,864)	427
Utilisation of tax losses`	1,796	–
Current tax charge for the year (note 6(a))	–	1

7. Information regarding directors and employees

The Group has no employees (2006 – None). The directors received no remuneration from the Group during the year (2006 – Nil).

8. Investments

Company

	Shares in group undertakings £000
At 30 November 2007	13

The undertakings in which the Company's interest at 30 November 2007 is more than 20% are as follows:

Company	*Principal activity*	*Proportion held*
Marble Arch Residential Securitisation No. 4 plc	Investment in residential loans	100%

The issued share capital consists of ordinary share capital. The subsidiary is registered and operates in the United Kingdom. The subsidiary is wholly owned and is accounted for using the acquisition method.

Notes to the financial statements

at 30 November 2007

8. Investments (continued)

The following information is presented in respect of its financial statements for the year ended 30 November 2007.

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000*
Aggregate Capital and Reserves	16,687	(1,800)
Profit/(loss) for the year/period	18,500	(1,813)

9. Mortgage loans – net balances

Group

	Mortgage £000	*Mortgage loss provision £000*	*Total £000*
At 30 November 2006	821,905	(1,645)	820,260
Net movement in the year/period	(237,913)	(9,628)	(247,541)
At 30 November 2007	583,992	(11,273)	572,719

The current mortgage loans in the pool have loan periods of between 20 to 345 months remaining with current interest rates ranging from 5.50% to 15.00% per annum.

Net mortgage loans of £572,718,814 (2006: £820,260,000) are held as security against the loan notes referred to in note 15.

10. Premium paid to mortgage loan originator

	2007 £000	*2006 £000*
At beginning of the year/period	13,565	14,700
Amortisation in the year/period	(13,565)	(1,135)
At end of the year/period	–	13,565

Notes to the financial statements

at 30 November 2007

11. Mortgage Loans - Unamortised premium

Group

	2007	*2006*
	£000	*£000*
Premium on acquisition at start of the year/period	1,440	1,480
Amortisation in the year/period	(819)	(40)
At end of the year/period	621	1,440

12. Debtors: amounts falling due after more than one year

Group

	2007	*2006*
	£000	*£000*
Mortgage loans:		
Net balances (note 9)	381,177	803,503
Unamortised premium (note 11)	227	621
	381,404	804,123

13. Debtors: amounts falling due within one year

Group

	2007	*2006*
	£000	*£000*
		(Restated)
Mortgage loans:		
Net balances (note 9)	191,542	16,757
Unamortised premium on acquisition (note 11)	394	819
Premium paid to mortgage loan originator (note 10)	–	13,565
Deferred taxation (note 20)	–	427
Other debtors	–	1
Deferred consideration	–	380
Prepayments and accrued income	4,372	–
Amounts owed by group undertakings	776	–
	197,084	31,949

Notes to the financial statements

at 30 November 2007

14. Creditors: amounts falling due within one year

Group

	2007 *£000*	*2006* *£000* *(Restated)*
Corporation tax	1	1
Amounts owed to related parties	2,962	602
Accruals and deferred income	30,479	30,138
Deferred taxation (note 20)	6,415	–
	39,857	30,741

15. Creditors: amounts falling due after one year

	2007 *£000*	*2006* *£000* *(Restated)*
USD Denominated Mortgage backed loan notes due 2023 – Class A1b	10,592	103,258
GBP Denominated Mortgage backed loan notes due 2023 – Class A1c	15,681	145,000
USD Denominated Mortgage backed loan notes due 2040 – Class A2b	121,520	128,431
GBP Denominated Mortgage backed loan notes due 2040 – Class A2c	56,000	56,000
GBP Denominated Mortgage backed loan notes due 2040 – Class A3c (with detachable coupons)	231,000	231,000
EUR Denominated Mortgage backed loan notes due 2040 – Class B1a	25,995	24,511
USD Denominated Mortgage backed loan notes due 2040 – Class B1b	13,179	13,894
GBR Denominated Mortgage backed loan notes due 2040 – Class B1c	20,000	20,000
EUR Denominated Mortgage backed loan notes due 2040 – Class C1a	31,030	29,259
GBP Denominated Mortgage backed loan notes due 2040 – Class C1c	15,000	15,000
EUR Denominated Mortgage backed loan notes due 2040 – Class D1a	14,783	13,939
GBR Denominated Mortgage backed loan notes due 2040 – Class D1c	26,000	26,000
GBP Denominated Mortgage backed loan notes due 2040 – Class DTc	–	8,400
GBP Denominated Mortgage backed loan notes due 2040 – Class E1c	25,200	25,200
GBP Denominated Mortgage backed loan notes due 2040 – Class ETc	2,066	5,880
GBP Denominated Mortgage backed loan notes due 2040 – Class FTc	466	420
	608,512	846,192
Less: Issue costs	(2,254)	(2,082)
Derivative instruments	6,511	14,779
	612,768	858,889

All amounts falling due after more than one year fall due after more than five years.

With the exception of the GBP mortgage backed loan notes due 2040, class DTc £nil (2006: £8.4m), class ETc £2.07m (2006: £5.88m) and class FTc £0.47m (2006: £0.42m), the remaining mortgage backed floating rate notes due 2023 and 2040 are secured over a portfolio of mortgage loans secured by first and second charges over residential properties in the United Kingdom.

The mortgages were purchased from Southern Pacific Mortgage Limited. The mortgages are administered by Capstone Mortgage Services Limited on behalf of Marble Arch Residential Securitisation No. 4 plc.

Notes to the financial statements

at 30 November 2007

15. Creditors: amounts falling due after one year (continued)

The mortgage backed floating rate notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgages.

If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in June 2023 or March 2040.

Interest on the notes is payable quarterly in arrears at the following annual rates for three month deposits:

Class A1b Notes	USD LIBOR + 0.07%
Class A1c Notes	Sterling LIBOR +0.07%
Class A2b Notes	USD LIBOR + 0.13%
Class A2c Notes	Sterling LIBOR + 0.13%
Class A3c Detachable Coupons (see below)	Sterling LIBOR + 0.18%
Class B1a Notes	EURIBOR + 0.28%
Class B1b Notes	USD LIBOR + 0.28%
Class B1c Notes	Sterling LIBOR + 0.3%
Class C1a Notes	EURIBOR + 0.48%
Class C1c Notes	Sterling LIBOR + 0.5%
Class D1a Notes	EURIBOR + 0.95%
Class D1c Notes	Sterling LIBOR + 0.95%
Class DTc Notes	Sterling LIBOR + 0.85%
Class E1c Notes	Sterling LIBOR + 3.99%
Class ETc Notes	Sterling LIBOR + 3.4%
Class FTc Notes	Sterling LIBOR +6.5%

Interest is payable at a rate of 1.00% above the London Interbank Offered Rate for three month sterling deposits.

"Detachable A3c Coupon Rate" means on any Interest Determination Date the rate (expressed per cent, per annum) which is the product of the following:

D% X A / A3c

Where:

D% means, the rate of 1.00 per cent per annum on each of the first to the fourth Interest Determination Dates (inclusive), the rate of 1.95 per cent per annum on each of the fifth and the sixth Interest Determination Dates (inclusive), the rate of 2.05 per cent per annum on the seventh Interest Determination Date, the rate of 2.20 per cent per annum on the eighth Interest Determination Date and the rate of 2.25 per cent per annum on each of the ninth to the twelfth Interest Determination Dates (inclusive), and zero per cent at all other times;

A means the aggregate Sterling Equivalent Principal Amount Outstanding (as defined in Condition 6 (*Payments*)) in respect of the A Notes; and

A3c means the aggregate Principal Amount Outstanding in respect of the A3c Notes.

Notes to the financial statements

at 30 November 2007

16. Called up share capital

	2007 £	2006 £
Authorised		
Ordinary shares of £1 each	50,000	50,000
Allotted and called up		
Ordinary shares of £1 each	1	1

£1 of share capital was issued on incorporation on 17 May 2006 and settled for cash on 17 May 2006.

17. Profit and loss account

	Group Year ended 30 November 2007 £000	*Company Year ended 30 November 2007 £000*	*Group Period ended 30 November 2006 £000*	*Company Period ended 30 November 2006 £000*
Retained loss brought forward	(1,813)	–	–	–
Profit/(loss) for the year/period	18,500	–	(1,813)	–
Retained profit/(loss) carried forward	16,687	–	(1,813)	–

18. Reconciliation of movement in shareholder's funds

	Group Year ended 30 November 2007 £000	*Company Year ended 30 November 2007 £000*	*Group Period ended 30 November 2006 £000*	*Company Period ended 30 November 2006 £000*
Issue of ordinary share capital	–	–	–	–
Retained profit/(loss) for the year/period	18,500	–	(1,813)	–
Net increase in shareholder's funds	18,500	–	(1,813)	–
Opening shareholders' funds	(1,813)	–	–	–
Closing shareholder's funds	16,687	–	(1,813)	–

Notes to the financial statements

at 30 November 2007

19. Derivatives and other financial instruments

As explained on page 4 the Group uses financial instruments in its normal course of business. The following analysis gives an indication of the significance of these instruments to the Group.

(a) Interest rate risk profile of financial liabilities as at 30 November

	Total	*Total Variable rate*	*Total fixed rate*	*Weighted average interest rate*	*Weighted average time for which rate is fixed*
	£000	*£000*	*£000*	*%*	*Years*
2007					
Interest rate profile	615,023	615,023	–	–	–
2006					
Interest rate profile	860,971	860,971	–	–	–

(b) Interest rate risk profile of financial assets as at 30 November

	Total	*Total Variable rate*	*Total fixed rate*	*Weighted average interest rate*	*Weighted average time for which rate is fixed*
	£000	*£000*	*£000*	*%*	*Years*
2007					
Interest rate profile	674,816	633,446	41,370	11.87	0.45
2006					
Interest rate profile	873,650	794,776	78,874	11.78	0.38

The Group also has financial instruments included within debtors (note 13) and creditors (note 14) which are not subject to interest rate risk as they bear no interest.

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the mortgage backed loan notes, are set with reference to the London Interbank Offer Rate. The rates of interest payable on the mortgage backed loan notes are set as detailed in note 15.

Notes to the financial statements

at 30 November 2007

19. Derivatives and other financial instruments (continued)

(c) Foreign currency risk

All the Group's financial instruments are denominated in sterling, euro or US dollars.

The mortgage backed loan notes were issued in the following tranches:

USD Denominated mortgage backed loan notes due 2023 – Class A1b Notes (Notional Value)	USD 201,400
GBP Denominated mortgage backed loan notes due 2023 – Class A1c Notes (Notional Value)	GBP 145,000
USD Denominated mortgage backed loan notes due 2040 – Class A2b Notes (Notional Value)	USD 250,500
GBP Denominated mortgage backed loan notes due 2040 – Class A2c Notes (Notional Value)	GBP 56,000
GBP Denominated mortgage backed loan notes due 2040 – Class A3c Notes (Notional Value)	GBP 231,000
EUR Denominated mortgage backed loan notes due 2040 – Class B1a Notes (Notional Value)	EUR 36,400
USD Denominated mortgage backed loan notes due 2040 – Class B1b Notes (Notional Value)	USD 27,100
GBP Denominated mortgage backed loan notes due 2040 – Class B1c Notes (Notional Value)	GBP 20,000
EUR Denominated mortgage backed loan notes due 2040 – Class C1a Notes (Notional Value)	EUR 43,450
GBP Denominated mortgage backed loan notes due 2040 – Class C1c Notes (Notional Value)	GBP 15,000
EUR Denominated mortgage backed loan notes due 2040 – Class D1a Notes (Notional Value)	EUR 20,700
GBP Denominated mortgage backed loan notes due 2040 – Class D1c Notes (Notional Value)	GBP 26,000
GBP Denominated mortgage backed loan notes due 2040 – Class DTc Notes (Notional Value)	GBP 8,400
GBP Denominated mortgage backed loan notes due 2040 – Class E1c Notes (Notional Value)	GBP 25,200
GBP Denominated mortgage backed loan notes due 2040 – Class ETc Notes (Notional Value)	GBP 5,880
GBP Denominated mortgage backed loan notes due 2040 – Class FTc Notes (Notional Value)	GBP 420

A series of currency swaps have been entered into, in order to manage the Group's currency rate exposure in relation to non-sterling denominated Loan Notes.

(d) Fair value of financial instruments

	Book value 2007 £000	*Fair value 2007 £000*	*Book value 2006 £000*	*Fair value 2006 £000*
On balance sheet				
Mortgage loans	583,992	536,761	821,905	821,905
Cash and deposits	90,824	90,824	51,745	51,745
Mortgage backed loan notes due 2023 and 2040	(608,511)	(604,500)	(846,192)	(846,192)
Derivative financial instruments	(6,512)	(6,512)	(14,779)	(14,779)

The directors have considered the fair values of the Group's main financial instruments, which are mortgage loan receivables and non recourse loan notes.

As no liquid secondary market exists for either the mortgage loan receivables or non recourse loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables. This model takes into account expected payment rates, arrears levels, house price movements and discount rates based on the most recent available information.

In previous years the directors have considered that the carrying amount of the mortgage loan receivables measured at amortised cost using the effective interest rate less any impairment, and limited recourse loan notes approximate to their fair values.

The Group uses interest rate caps in certain circumstances to hedge against movements in interest rates. At 30 November 2007, the notional value of these caps was £756,000,000 (2006: £756,000,000) and the recognised positive fair value was £894,952 (2006: (£223,340) negative).

Notes to the financial statements

at 30 November 2007

19. Derivatives and other financial instruments (continued)

The Group uses interest rate swaps in certain circumstances to hedge against movements in interest rates. At 30 November 2007, the notional value of these swaps was £161,584,379 (2006: £202,569,257) and the recognised positive fair value was £1,964,977 (2006: £1,482,258).

The Group uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2007, the notional value of the swaps held was £651,422,408 (2006: £295,231,350) and the recognised negative fair value was £9,371,362 (2006: (£16.037,895) negative).

20. Deferred taxation

	Year ended 30 November 2007 £000	*Period ended 30 November 2006 £000*
Asset at start of year/period	427	–
Deferred tax credit in the profit and loss account (note 6) after marginal rate relief	(6,842)	427
Asset at the end of year/period	(6,415)	427

Full provision has been made for deferred tax assets arising as a result of Financial Reporting Standards No. 26 adjustments.

Deferred taxation has been recognised at 20% (2006 - 19%) being the UK small companies corporation tax rate at the balance sheet date.

As of 1 April 2008 the UK corporation tax rate increased to 21%. The impact of the rate change on the deferred tax asset/liability expected to reverse in greater than one year would be an increase of £320,754.

	2007 £000	*2006 £000*
Effect of Financial Reporting Standard No. 26 adjustment for EIR	(5,863)	(765)
Effect of Financial Reporting Standard No. 26 adjustment for Derivatives	(552)	1,192
Total deferred tax asset recognised at 19%	–	427
Total deferred tax asset recognised at 20%	(6,415)	449
Total deferred tax asset recognised at 21%	(6,736)	–
Difference	(321)	22

Notes to the financial statements

at 30 November 2007

21. Related party transactions

During the year, Marble Arch Residential Securitisation No. 4 plc has been charged the following amounts of interest and administration fees by Southern Pacific Mortgage Limited, and the amounts outstanding at the end of the year were:

Marble Arch Residential Securitisation No. 4 plc

	Amount charged year ended 30 November 2007 £000	*Amount outstanding 30 November 2007 £000*	*Amount charged period ended 30 November 2006 £000*	*Amount outstanding 30 November 2006 £000*
A note detachable coupons	5,696	882	571	571
Aggregate arrears and interest loan	–	–	–	(32)
Deferred consideration	380	–	(380)	(380)

22. Post balance sheet events

On 3 October 2008, the interest rate swap counterparty Lehman Brothers Special Financing Inc. filed for Chapter 11 bankruptcy. As a direct result the Group was not paid £884,247 that was due under these swaps at the September 2008 Interest Payment Date. At this stage it is anticipated that the Group is likely to continue to make losses on these swaps, however it is not possible to quantify the amount of these losses.

23. Control

The entire issued share capital of the Company is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none, for the benefit of the holders of notes issued by the wholly-owned subsidiary, Marble Arch Residential Securitisation No. 4 plc, and ultimately for charitable purposes.

Marble Arch Residential Securitisation No. 4 Parent Limited is included in the financial statements of Southern Pacific Mortgage Limited under linked presentation. Its financial statements are available to the public and may be attained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.