Marble Arch Residential Securitisation No. 4 Parent Limited

Report and Financial Statements

30 November 2009

Registered No 05819309

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Directors

M H Filer Wilmington Trust SP Services (London) Limited J Schroeder

Secretary

Wilmington Trust SP Services (London) Limited Fifth Floor 6 Broad Street Place London EC2M 7JH

Auditors

Ernst & Young LLP 1 More London Place London SEI 2AF

Registered Office

c/o Wilmington Trust SP Services (London) Limited Fifth Floor 6 Broad Street Place London EC2M 7JH

The directors present their report and the audited consolidated financial statements for the year ended 30 November 2009

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 properties within the United Kingdom.

Business review

On 31 October 2006 the Group purchased £839,999,706 of mortgages from Southern Pacific Mortgage Limited Further consideration may be payable dependent on future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as a loan to originator as detailed in note 1 of the financial statements. To facilitate the purchase, the Group issued a series of mortgage-backed loans on 31 October 2006. These loan notes are listed on the Irish Stock Exchange.

The mortgage servicing, cash bond administration and accounting services are provided to the Group by Capstone Mortgage Services Limited, an external party

The consolidated results for the year ended 30 November 2009 is set out on page 10 The Group's business activities, together with the factors likely to affect its future development, financial performance and financial position are set out below

The current economic environment is difficult but the Group has reported an operating profit for the year after Financial Reporting Standard No 26 adjustments, which are required in order to recognise the interest income on mortgage loan assets underlying the loan to originator on an Effective Interest Rate (EIR) basis. The directors consider that the outlook presents significant challenges in meeting the capital repayments and interest due to the holders of the loan notes as and when they fall due

The directors have concluded that the Group will continue as a going concern and set out the basis for this conclusion in the Going concern section of this report

On 22 September 2009 the Group filed claims of \$US 17,806,765 against the interest rate swap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement. The directors do not currently think that it is possible to quantify amounts that may eventually be recovered under these claims and therefore nothing has been recognised in the financial statements.

As required by Financial Reporting Standard No 26, the result for the year includes a fair value gain on derivative financial instruments of £7,396,223 (2008 – £24,018,519 gain) and an unrealised exchange loss on restatement of loan liabilities of £6,681,415 (2008 – £29,083,870 loss)

At the year end the loan to originator balance after the Effective Interest Rate Adjustment, was £317,616,913 (2008 – £384,907,912) At the December 2009 Interest Payment Date the originator held the following mortgage loans underlying the loan to originator, excluding the Effective Interest Rate Adjustment

	Principal balance £000	Number of loans
First Mortgages Second Mortgages	255,697 66,623	1,873 3,773
Total	322,320	5,646

Business review (continued)

These mortgages provide security against loan notes in issue totalling £325,042,347 as at the December 2009 Interest Payment date

The mortgage loans generated a weighted average margin over funding costs of 4 39% during the year, before considering the adjustments for Financial Reporting Standard No 26 The weighted average cost of funds for the year was 1 79%

The mortgage loans exhibited the following quarterly arrears profile

	QI	Q2	Q3	Q4
	%	%	%	%
Delinquencies days - (excluding repossessions)				
Current	67 68	72 57	75 59	77 48
>30<=60	7 49	5 85	5 50	4 97
>60<=90	5 28	3 89	3 54	3 44
>90<=120	3 23	2 32	2 16	2 06
>120	16 32	15 37	13 21	12 05
Total	100 00	100 00	100 00	100 00

At the March 2010 Interest Payment Date following year end, the mortgage assets underlying the loan to originator balance, was £315,141,872, 15 12% of the balance 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 expected cash flows of the loan to originator

The performance of the mortgage loans during the year to 30 November 2009 enabled deferred consideration of £Nil (2008 - £467,339) to be paid to the current holder of the rights to the residual cash flows of the securitisation

Going concern

As described in the Business review, the Group has reported an operating profit for the year

However the Group is in a net liability position as at 30 November 2009 due to the impact of adverse interest rate movements on the value of the mortgage backed loan notes, which are no longer covered by interest rate swaps, the amortisation of the premium paid to the mortgage loan originator and the impairment of the underlying mortgage loans. Should these adverse interest rate movements and this impairment not reverse in forthcoming periods the Group may be unable to meet capital repayments and interest due to the holders of the loan notes as and when they fall due

It is the intention of the directors of the Group to continue operations until such a time as the amount due from mortgage loans underlying the loan to originator have been fully realised. Ultimately, due to the non-recourse nature of the mortgage backed loan notes, any shortfall in the proceeds from the mortgage assets will be a risk to the holders of those notes and accordingly the financial statements have been prepared on a going concern basis.

Fair value

Note 18 discloses the fair values of the mortgage assets, underlying the loan to originator, and non recourse loan notes. The directors noted that as at 30 November 2009 the respective fair values of the mortgage assets underlying the loan to originator, 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 sub prime mortgage sector and the decline in market demand for mortgage backed securities

As no liquid market exists for either the mortgage loans underlying the loan to originator 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 prepayment rates, arrears levels, house price movements, level of repossessions, losses and discount rates based on the most recent available information.

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 underlying the loan to originator or non recourse loan notes

Dividend

The directors do not recommend the payment of a dividend for the year (2008 - £Nil)

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 (2008 – Nil days).

Directors

The directors who held office during the year were as follows

M H Filer

Wilmington Trust SP Services (London) Limited

J Schroeder

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 risk

The financial instruments held by the Group comprise mortgage assets underlying the loan to originator, borrowings, cash and various other items (such as trade debtors, trade creditors etc) that arise directly from its operations

The Group also entered into derivative 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, foreign exchange 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 underlying the loan to originator 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. The mortgage portfolio is recognised as a collateralised non-recourse loan to the originator as explained in note 1.

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. However the interest rate swap counterparty has filed for Chapter 11 bankruptcy, and has defaulted on the swaps. The swap agreements have not been replaced. The directors believe under current circumstances that it is not viable to replace the swaps and until such time, the Group will continue with an unhedged interest rate risk exposure.

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 exchange 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 risk

The Group's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets underlying the loan to originator 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

Director

Date

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

Mark Filer

JULY 2010

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Statement of directors' responsibilities

The directors are responsible for preparing the director's 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). 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 Group and of the Company 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards 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 Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and 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 2006 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



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

We have audited the financial statements of Marble Arch Residential Securitisation No. 4 Parent Limited for the year ended 30 November 2009 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet and the related notes 1 to 22 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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 group's and the parent 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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 November 2009 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements



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

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company's 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

Andrew Woosey (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Enst - Young LLP

London

27 Lly 2010 Date

Consolidated profit and loss account

for the year ended 30 November 2009

	Notes	2009 £000	2008 £000
Interest receivable and similar income	2	50,063	30,098
Interest payable and similar charges	3	(14,869)	(37,775)
Net interest receivable/(payable)		35,194	(7,677)
Net fair value gain on derivatives Other operating income Unrealised exchange loss on restatement of loan liabilities Operating expenses	4	7,396 810 (6,681) (16,285)	24,018 2,296 (29,083) (19,061)
Profit/(loss) on ordinary activities before taxation	5	20,434	(29,507)
Tax on profit/(loss) on ordinary activities	6	(5,492)	4,875
Profit/(loss) on ordinary activities after taxation	16	14,942	(24,632)

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 13 to 30 form part of these financial statements

Consolidated balance sheet

at 30 November 2009

	Notes	2009 £000	2008 £000
Fixed assets Loan to originator	9	317,617	348,908
Current assets Debtors			
Amounts falling due after one year Amounts falling due within one year Cash at bank and in hand	11 12	24,903 1,192 71,308	17,507 6,439 32,760
		97,403	56,706
Creditors: amounts falling due within one year	13	(65,435)	(7,755)
Net current assets		31,968	48,951
Creditors amounts falling due after one year	14	(359,446)	(422,662)
Net liabilities		(9,861)	(24,803)
Capital and reserves			
Issued share capital Profit and loss account	15 16	(9,861)	(24,803)
Shareholders' deficit	17	(9,861)	(24,803)

The notes on pages 13 to 30 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

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ULY 2010

Company balance sheet

at 30 November 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Investments	8	13	13
Creditors	13	(13)	(13)
Net assets			
Capital and reserves			
Issued share capital	15	_	_
Profit and loss account	16	_	_
Shareholder's funds	17		

The notes on pages 13 to 30 form part of these financial statements

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

Mark Filer

Date 26 JUNY 2010

Director

at 30 November 2009

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 account. The financial statements have been prepared on a going concern basis as referred to in the Going concern section of the Directors' Report. Certain 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 Group and all its subsidiaries for the year ended 30 November 2009. All the subsidiaries are accounted for using acquisition accounting

In accordance with section 408 (4) of the Companies Act 2006, Marble Arch Residential Securitisation No 4 Parent Limited is exempt from the requirement to present its own profit and loss account. The result for the year of Marble Arch Residential Securitisation No 4 Parent Limited is disclosed in note 16 to the financial statements.

Income recognition

Interest income on mortgage loan assets underlying the loan to originator 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.

Loan to originator

Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset for financial reporting purposes, as its asset. The transferred derecognises the cash or other consideration paid and recognises a receivable from the transferre. In relation to the mortgage portfolio transferred to the Group, derecognition is considered to be inappropriate for the portfolio seller's or originators' (Southern Pacific Mortgage Limited) own financial statements as the originator has retained significant risks, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. The Group's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised non-recourse loan to the originator.

The loan to originator is classified within "loans and receivables", the initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest rate method. The effective interest on the loan to the originator is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio less the residual interest due to the current holder of the rights to the residual cash flows of the securitisation.

The Group 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

An adjustment to the expected cash flows of the loan to originator balance would be recognised where there is a risk that the income on the loan will be significantly reduced. This could occur if the credit quality of the mortgage assets that are pledged as collateral for the loan deteriorated significantly and is calculated in accordance with the provisions policy below

at 30 November 2009

1. Accounting policies (continued)

Provisions

Specific provisions for losses on loans and advances to customers which underlie the loan to originator 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)

Fixed asset investment

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

Discount on purchase of mortgage assets underlying the loan to originator

Cash received from the originator on acquisition of the mortgage assets underlying the loan to originator to cover start up costs are amortised over the expected life of the mortgage assets. The amortised balance is deducted from the loan to originator with the income for the year included in interest receivable.

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 that 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 mortgages underlying the loan to originator

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.

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 the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet.

Derivatives

The Group uses 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.

at 30 November 2009

1. Accounting policies (continued)

Derivatives (continued)

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 swaps caps 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

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 underlying the loan to originator. The derivative contracts match the expected profile of the run-off of the fixed rate loans.

Currency swaps

A series of currency swaps were 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

Mortgage-backed loan notes

Mortgage-backed loan notes are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the mortgage-backed loan notes are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans. The directors periodically review the estimated future cash flows on the mortgage loans to determine whether the amortised cost carrying value of the loan notes requires adjustment. If a shortfall in the cash flows is identified, an adjustment is credited to the profit and loss account to reduce the carrying value of the loan notes.

Related party transactions

Southern Pacific Mortgage Limited retains an interest in the cash flows 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

MARS 4 Residual Financing Limited purchased and benefits from the residual cash flows generated by Marble Arch Residential Securitisation No 4 plc, whilst having no direct investment in the Group, is treated as a related party

at 30 November 2009

1. Accounting policies (continued)

Statement of cash flows

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

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

		2009	2008
		£000	£000
	On loan to originator	45,932	24,051
	Other interest	654	2,570
	Amortisation of start up costs contributed by the mortgage loan originator	3,477	3,477
		50,063	30,098
_	And a second and a second about the second and a second a		
3.	Interest payable and similar charges		
		2009	2008
		£000	£000
	Mortgage backed loan notes	13,707	37,199
	Other interest payable	587	1
	Amortisation of premium paid to mortgage loan originator	124	124
	Amortisation of capitalised issue costs	451	451
		14,869	37,775
4.	Other operating income		
		2009	2008
		£000	£000
	Redemption fees	625	2,285
	Sundry fee income	185	11
		810	2,296
			

at 30 November 2009

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

This is stated after charging

	Inis is stated after charging		
		2009	2008
		£000	£000
		2000	2000
	Auditors' remuneration – For audit services Group	13	13
	- Company	5	5
	Other fees to auditors – taxation services – Group	8	8
	– Company	2	2
	Adjustment to the expected cash flows of the loan to originator	<i>(6.</i> 510)	4 102
	arising from the impairment of the underlying mortgages Deferred consideration	(6,510)	4,193 467
	Adjustment to the expected cash flows of the loan to originator		407
	arising from bad debts incurred on the underlying mortgages	19,762	9,916
6.	Tax		
υ.	·		
	(a) Tax on profit/(loss) on ordinary activities		
	The tax charge/(credit) is made up as follows		
		2009	2008
		£000	£000
	Current tax		
	UK corporation tax on profit/(loss) in the year		
	ok corporation tax on profit (toss) in the year	_	_
	Total current tax (note 6(b))	_	
	Deferred tax		
	Origination and reversal of timing differences	5,492	(4,934)
	Effect of rate change on opening liability	· –	59
	Total deferred tax charge/(credit)(note 19)	5,492	(4,875)
	Total deserted tax charge/credit/(note 17)	J, 4 52	(4 ,6 <i>13)</i>
	Tax on profit/(loss) on ordinary activities	5,492	(4,875)

at 30 November 2009

6. Tax (continued)

(b) Factors affecting the tax charge/(credit) in the year

The tax rate assessed for the year is higher than the small companies rate of corporation tax in the UK of 21% (2008 – 21%) The factors affecting the tax charge/(credit) are explained below

	2009	2008
	£000	£000
Profit/(loss) on ordinary activities before tax	20,434	(29,507)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax for small companies of 21% (2008 – 21%)	4.291	(6,099)
Effects of	,,=,,	(-,,
Other short-term timing differences	(5,492)	4,857
Tax losses not recognised in the year	1,201	1,242
Current tax charge for the year (note 6(a))	-	

7. Information regarding directors and employees

The Group has no employees (2008 – none) The directors received no remuneration from the Group during the year (2008 - £Nil)

8. Investments

Company

Shares in group undertakings £000

At 30 November 2008 and 2009

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The undertakings in which the Company's interest at 30 November 2009 is more than 20% are as follows

Company Principal activity Proportion held

Marble Arch Residential Securitisation

No 4 plc Investment in residential loans 100%

At 30 November 2009 the Company held 49,998 ordinary shares of £1 each in Marble Arch Residential Securitisation No 4 plc, and has paid up 25p on each share. The Company also held one fully paid share of £1 in the same company. These holdings represent the entire issued share capital of that company except for one fully paid ordinary share of £1 held by Wilmington Trust SP Services (London) Limited on a discretionary basis.

at 30 November 2009

Investments (continued)

Marble Arch Residential Securitisation No 4 plc acts as an investment company, holding mortgages financed by Mortgage Backed Floating Rate Notes. The subsidiary is registered and operates in the United Kingdom. The following information is presented in respect of its financial statements for the year ended 30 November 2009.

		2009	2008
		£000	£000
	Aggregate capital and reserves	(9,848)	(24,790)
	Profit/(loss) for the year	14,942	(24,632)
9.	Loan to originator – net balances		
	Group	2009	2008
	·	£000	£000
	At 1 December	348,908	529,807
	Movement in unamortised discount on acquisition of mortgage loans underlying the loan to originator	3,477	3,477
	Movement in unamortised premium on acquisition of mortgage loans underlying the loan to originator (note 10)	(124)	(124)
	Principal repayments and mortgage redemptions	(21,392)	(170,143)
	Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	6,510	(4,193)
	Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgage loans	(19,762)	(9,916)
	At 30 November	317,617	348,908

The Group purchased a portfolio of mortgage loans from Southern Pacific Mortgage Limited However, as the principal economic risk and rewards associated with these mortgage loans remain with Southern Pacific Mortgage Limited, these loans are not deemed for accounting purposes to have been transferred to the Group Accordingly, the Group accounts for the transaction as a loan to Southern Pacific Mortgage Limited, as the originator of the loans. The repayment of the loan to originator is linked to the repayment of the loan notes referred to in note 14

The loan to Southern Pacific Mortgage Limited is denominated in Sterling and bears interest at a variable rate. It is secured on the beneficial interest in a portfolio of residential mortgage loans.

The current mortgage loans in the pool have loan periods of between 1 to 320 months remaining with current interest rates ranging from 1 73% to 15 00% per annum

The mortgage loans are held as security against the loan notes referred to in note 14

at 30 November 2009

10.	Mortgage loans – unamortised premiu	m			
	Group			2009	2008
	·			£000	£000
	At the start of the year			497	621
	Amortisation in the year			(124)	(124)
	At the end of the year			373	497
11.	Debtors: amounts falling due after one	vear			
	Group	•		2009	2008
	•			£000	£000
	Derivative financial instruments			24,903	17,507
	The above mark to market gain is net of a crecounterparty default risk (2008 – £2,235,709)	edit valuation a	adjustment of	£1,995,923 11	respect of
12.	Debtors: amounts falling due within or	ne year			
	Group			2009	2008
				£000	£000
	Amounts owed by related parties			126	295
	Corporation tax			14	14
	Prepayments and accrued income Deferred taxation (note 19)			1,052 -	2,440 3,690
				1,192	6,439
40	Consideration and according to the control of the c				
13.	Creditors: amounts falling due within	-		~	_
		Group	Company	Group	Company
		2009	2009	2008	2008
		£000	£000	£000	£000
	Amounts owed to related parties	-	_	1,159	_
	Other creditors	61,013	13	681	13
	Deferred taxation (note 19)	1,802	_		_
	Accruals and deferred income	2,620		5,915	
		65,435	13	7,755	13

Other creditors include £60,900,000 (2008 – £Nil) owing to the liquidity facility provider. This arises from the drawdown of the facility due to the counterparty default risk of the provider. The cash drawing of £60,900,000 is included in Cash at bank and in hand.

at 30 November 2009

14. Creditors: amounts falling due after one year

Group	2009	2008
	£000	£000
USD Denominated Mortgage backed loan notes due 2023 - Class A1b	_	_
GBP Denominated Mortgage backed loan notes due 2023 - Class A1c	_	_
USD Denominated Mortgage backed loan notes due 2040 – Class A2b	_	4,873
GBP Denominated Mortgage backed loan notes due 2040 – Class A2c	_	1,675
GBP Denominated Mortgage backed loan notes due 2040 - Class A3c		
(with detachable coupons)	166,306	231,000
EUR Denominated Mortgage backed loan notes due 2040 – Class B1a	33,230	30,083
USD Denominated Mortgage backed loan notes due 2040 – Class B1b	16,501	17,619
GBP Denominated Mortgage backed loan notes due 2040 – Class B1c	20,000	20,000
EUR Denominated Mortgage backed loan notes due 2040 – Class C1a	39,665	35,909
GBP Denominated Mortgage backed loan notes due 2040 – Class C1c	15,000	15,000
EUR Denominated Mortgage backed loan notes due 2040 - Class D1a	18,897	17,107
GBR Denominated Mortgage backed loan notes due 2040 – Class D1c	26,000	26,000
GBP Denominated Mortgage backed loan notes due 2040 - Class E1c	25,200	25,200
GBP Denominated Mortgage backed loan notes due 2040 – Class ETc	_	-
GBP Denominated Mortgage backed loan notes due 2040 – Class FTc	-	_
	360,799	424,466
Less Issue costs	(1,353)	(1,804)
	359,446	422,662
		

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

With the exception of the Class ETc and Class FTc notes the GBP mortgage backed loan notes due 2040 are secured over a portfolio of mortgage loans secured by first and second charges over residential properties in the United Kingdom

The mortgages underlying the loan to originator are administered by Capstone Mortgage Services Limited on behalf of Marble Arch Residential Securitisation No 4 plc

The loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage loans. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. Note holders have no recourse to Marble Arch Residential Securitisation No. 4 plc in any form

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 March 2040.

at 30 November 2009

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

The loan notes are repayable out of capital receipts from the mortgage loan receivables, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes

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 Notes	Sterling LIBOR + 0 18%
Class A3c Detachable coupons	(see below)
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%

"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

at 30 November 2009

15. Issued share capital

	2009	2008
	£	£
Allotted and called up		
1 shares 100% called and fully paid	1	1

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

16. Profit and loss account

	Group	Company	Group	Company
	2009	2009	2008	2008
	£000	£000	£000	£000
Retained loss brought forward	(24,803)	_	(171)	_
Profit/(loss) for the year	14,942	_	(24,632)	_
Retained loss carried forward	(9,861)		(24,803)	

17. Reconciliation of movement in shareholders' funds

	Group	Company	Group	Company
	2009	2009	2008	2008
	£000	£000	£000	£000
Opening shareholders' deficit	(24,803)	_	(171)	_
Profit/(loss) for the year	14,942	_	(24,632)	_
Closing shareholders' deficit	(9,861)		(24,803)	

18. Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign exchange risk and liquidity risk. Financial instruments used by the Group for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principal derivative instruments used by the Group in managing its risks are interest rate caps, interest rate swaps and foreign currency swaps. The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities. All of the Group's derivatives activities are contracted with financial institutions.

During the year, the Group recognised net fair value losses of £714,808 (2008 – £5,065,351) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes

The main risks arising from the Group's financial instruments and management of these risks are summarised below

at 30 November 2009

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

Credit rısk

Credit risk arises primarily from the potential for default in the mortgage loan portfolio. Credit risk is managed through the arrears management process which ensures that mortgages going into arrears are quickly identified and closely monitored.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as set out in table (a)

Liquidity risk

The underlying mortgage loan assets are funded by the issue of non-recourse floating rate loan notes Liquidity risk is managed by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the loan notes. The Group holds a minimum cash balance to manage short-term liquidity requirements.

Foreign exchange risk

Certain loan notes are issued in Euro denominations and repayments of principal and payments of interest are made in Euros. The Group takes out derivative instruments to manage movements in foreign currency exchange rates.

Interest rate risk

The Group is exposed to interest rate risk 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 takes out derivative financial instruments to manage interest rate mismatches. However, the interest rate swap counterparty has filed for Chapter 11 bankruptcy, and has defaulted on the swap which has not been replaced. The directors believe under the current circumstances that it is not viable to replace the swap and until such time the Group will continue with an unhedged interest rate risk exposure.

(a) Credit risk

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November was

	413,828	399,175
Cash at bank and in hand	71,308	32,760
Derivative financial instruments	24,903	17,507
Loan to originator	317,617	348,908
	£000	£000
	2009	2008
	2000	200

at 30 November 2009

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(b) Liquidity risk

The contractual undiscounted cash flows associated with financial liabilities were as follows

At 30 November 2009

	Less than						
Financial	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
liabilities	£000	£000	£000	£000	£000	£000	£000
Loan notes	38,364	33,046	29,751	26,785	246,525	_	374,471
At 30 Nove	mber 2008						
	Less than						
Financial	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
liabilities	£000	£000	£000	£000	£000	£000	£000
Loan notes	125,113	93,706	69,408	51,410	38,079	111,837	489,553

There is no contractual obligation to pay down the loan notes other than as set out in note 14

The undiscounted cash flows have been estimated by applying a constant (per annum) prepayment rate to the principal balance of the moitgage loans underlying the loan to originator and using the weighted average interest rate prevailing at the balance sheet date. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes

(c) Foreign exchange risk

The Group's policy is to hedge all material foreign currency exposures. Due to the use of derivatives at 30 November 2009, the Group had no net material exposure to foreign exchange fluctuations. At 30 November 2009, the notional value of the swaps held was £81,800,000 (2008 – £85,779,121) and the recognised positive fair value of the swaps was £24,903,310 (2008 – £17,498,293 positive)

Excluding the effect of derivatives, the amounts of financial assets and liabilities denominated in foreign currencies were as follows

	2009	2008
	Euro	Euro
	£000	£000
Financial liabilities		
USD Denominated Mortgage backed loan notes due 2023 – Class A1b	_	_
USD Denominated Mortgage backed loan notes due 2040 – Class A2b	_	4,873
EUR Denominated Mortgage backed loan notes due 2040 – Class B1a	33,230	30,083
USD Denominated Mortgage backed loan notes due 2040 - Class B1b	16,501	17,619
EUR Denominated Mortgage backed loan notes due 2040- Class C1a	39,665	35,909
EUR Denominated Mortgage backed loan notes due 2040 - Class D1a	18,897	17,107
	108,293	105,591

at 30 November 2009

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(c) Foreign exchange risk (continued)

There were no financial assets that were denominated in foreign currencies

(d) Interest rate risk

The table below summarises the interest rate risk profile of the Group's financial instruments

At 30 November 2009

	n Total £000	Total on-interest bearing £000	Within 3 months £000	After 3 months but within 6 months £000	After 6 months but within 1 year £000	After I year but within 5 years £000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Financial assets								
Loan to originator	317,617	373	317,244	~	-	-	-	
Cash and deposits	71,308	_	71,308	_	_	-		
Derivative financial								
instruments	24,903	24,903	-	-	-	-		
Total assets	413 828	25,276	388,552	-	-	_		
					===			
Financial liabilities Mortgage backed loan notes due								
2023 and 2040	360,799	26,493	334,306	_	_	_		
Liquidity facility								
provider creditor	60,900	-	60,900	-	-	_		
Total liabilities	421,699	26,493	395,206				_	

at 30 November 2009

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(d) Interest rate risk (continued)

At 30 November 2008

								weignieu
				After	After	After	Weighted	average ume for
		Total		3 months	6 months	1 year	average	which rate
	n	on-interest	Within	but within	but within	but within	ınterest	ıs fixed
	Total	bearing	3 months	6 months	1 year	5 years	rate	Years
	£000	£000	£000	£000	£000	£000	%	
Financial assets								
Loan to originator	348,908	(13,410)	362,318	_	-	-	_	_
Cash and deposits	32,760	-	32,760	-	_	_		
Derivative financial								
Instruments	17,507	17,507	_	-	-	-		
								
Total assets	399,175	4,097	395,078	-	-	-		
Financial liabilities								
Mortgage backed								
loan notes due								
2023 and 2040	424,466	19,811	404,655	_	_	_		
Total liabilities	424,466	19,811	404,655	_	_	_		
			====					

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 14.

The Group uses interest rate caps in certain circumstances to hedge against movements in interest rates. At 30 November 2009, the notional value of these caps was £252,000,000 (2008 – £504,000,000) and the recognised positive fair value was £Nil (2008 – £8,794 positive)

The Group used interest rate swaps in certain circumstances to hedge against interest rate fluctuations when mortgage loans have fixed interest rates while the mortgage backed loan notes have variable rates Following the default of the swap counterparty at 30 November 2009, the notional value of the swaps held was £Nil (2008 – £Nil) and the recognised positive fair value was £Nil (2008 – £Nil)

On 22 September 2009 the Company filed claims of \$US 17,806,765 against the interest rate swap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement. The directors do not currently think that it is possible to quantify amounts that may eventually be recovered under these claims and therefore nothing has been recognised in the financial statements.

Weighted

at 30 November 2009

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(e) Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

	At	30 November	2009	At 30 November 2008			
	If fair val				If fair value		
			Increased			ıncreased	
	Book value	Fair value	by 1%	Book value	Fair value	by 1%	
	£000	£000	£000	£000	£000	£000	
Financial assets							
Loan to originator	317,617	248,280	2,483	348,908	311,562	3,116	
Cash and deposits	71,308	71,308	713	32,760	32,760	328	
Derivative financial	24.000	2.002					
instruments	24,903	24,903	249	17,507	17,507	175	
	413,828	344,491	3,445	399,175	361,829	3,619	
Financial habilities Mortgage backed				=======================================			
loan notes due 2040 Liquidity facility	(360,799)	(254,923)	(2,549)	(424,466)	(326,128)	(3,261)	
Provider	(60,900)	(60,900)	(609)	_		-	
	(421,699)	(315,823)	(3,158)	(424,466)	(326,128)	(3,261)	

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

As no liquid market exists for either the mortgage loans underlying the loan to originator 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, house price movements and discount rates based on the most recent available information.

(f) Interest income and expense on financial instruments that are not at fair value through profit and loss

	2009	2008
	£000	£000
Interest receivable on loan to originator	45,932	24,051
Interest expense on loan notes	(13,707)	(37,199)
	32,225	(13,148)

at 30 November 2009

19. Deferred taxation

£000
,185)
,875
,690
,8

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No 26 adjustments Losses of £42,799,825 resulting in a deferred tax asset of £8,987,963 have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the Group's future profitability.

Deferred taxation has been recognised at 21% (2008 – 21%) being the UK small companies' corporation tax rate at the balance sheet date

	2009	2008
	£000	£000
		(restated)
Effect of Financial Reporting Standard No 26 adjustment for EIR	(2,136)	3,206
Effect of Financial Reporting Standard No 26 adjustment for Derivatives	(5,229)	(3,676)
Effect of Financial Reporting Standard No 26 adjustment for FX hedge	5,563	4,160
Total deferred tax (liability)/asset recognised at 21%	(1,802)	3,690

20. Related party transactions

During the year, Marble Arch Residential Securitisation No 4 plc has paid the following amounts to MARS 4 Residual Financing Limited and Southern Pacific Mortgage Limited and the amounts outstanding at the end of the year were

Marble Arch Residential Securitisation No 4 plc

	Amount	Amount	Amount	Amount
	paıd	outstanding	paid	outstanding
	2009	2009	2008	2008
	£000	£000	£000	£000
MARS 4 Residual Financing Limited				
A note detachable coupons	4,361	728	5,976	998
Residual income – redemption penalties	343	50	1,763	161
Deferred consideration	_	_	467	_
Southern Pacific Mortgage Limited				
Mortgage related amounts receivable	_	(126)	_	(295)

at 30 November 2009

21. Capital structure

The Company's capital is represented by the capital and reserves attributable to equity holders. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act 2006, with which it complies. The Company manages its ordinary share capital in order that there is sufficient capital to meet the needs of the Company in its operation.

22. Parent undertaking and control

The entire issued share capital of Marble Arch Residential Securitisation No 4 Parent Limited is held by a Trustee under a declaration of trust for charitable purposes

Marble Arch Residential Securitisation No 4 Parent Limited is included in the financial statements of Southern Pacific Mortgage Limited, a company registered in England and Wales under linked presentation Financial statements of this group is available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ