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Auburn Securities 3 plc

Annual Report and Financial Statements

Year Ended 31 December 2013

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors

M McDermott
D R Fisher
Wilmington Trust SP Services (London) Limited

Solicitors

Rosling King LLP
10 Old Bailey
London
EC4M 7NG

Secretary and Registered Office

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

Bankers

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

Registered Number. 4442874

Auditors

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

STRATEGIC REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2013

Principal activities

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

Business review, results and future developments

The company was established in 2002 as a special purpose entity to effect the securitisation of a tranche of mortgage assets from a related entity, Capital Home Loans Limited ("Capital Home Loans") Since then, the company has continued to hold the related mortgage assets, the income and capital payments from which have been used to repay debt funding raised as part of the original securitisation transaction Capital Home Loans administers the mortgage book and loan notes on behalf of the company and further details of this relationship are set out in note 18

The company has a gross loan balance of £62 8m at 31 December 2013 (2012 £67 4m) This is funded via external securitisation

The company recorded a loss after tax of £13,000 in 2013 (2012 loss £33,000), due to the fair value improvement in the swap derivatives, step-up interest adjustments and the associated deferred tax charge

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

- keeping a tight control over its cost base,
- proactive arrears management which is evidenced by its below industry arrears level with accounts over 3 months in arrears by value at 0 23% at 31 December 2013 (2012 0 36%), and
- high standard of customer services

The weighted average LTV for the loan book has improved from 48% in December 2012 to 46% in December 2013 consistent with the recent rise seen in the UK house price index

The redemption rate in 2013 was 6 74% (2012 7 97%) The directors expect the redemption rates to rise in 2014 due to loan portfolio seasoning, house price increases, improvement in the liquidity in the mortgage market and better general economic conditions in the UK

Details of the results for the year are set out in the statement of comprehensive income on page 18 and in the related notes

Key performance indicators

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

Principal risks and uncertainties

In common with all businesses, the company faces certain risks and uncertainties As the company operates in the financial services industry the majority of its key risks and uncertainties arise from its financial instruments and principally relate to mortgage arrears and associated liquidity and interest rate profile – these risks are discussed in more detail in note 16

STRATEGIC REPORT - continued

Going concern

It is expected that the company will continue to have sufficient cash inflows from its current cash resources and its mortgage book to meet its ongoing obligations, in particular for its senior non-recourse debt providers

The company is dependent on Capital Home Loans to administer the mortgage book and loan notes on behalf of the company The company is considered to be a subsidiary of Capital Home Loans owing to the specific terms set out in the governing documentation relating to this entity and its securitised assets Capital Home Loans has incurred losses for the past number of years and expects to register continued losses going forward Capital Home Loans is wholly owned by and is dependent on Permanent TSB Group Holdings Public Limited Company ("PTSBGH") for continued financial support PTSBGH recorded continued losses in 2013, is majority owned by the Irish State and continues to be dependent on Monetary Authority financial support in Ireland

The directors of PTSBGH have considered various matters in evaluating the appropriateness of the going concern basis of preparation for its financial statements and have concluded that there are two material uncertainties facing the PTSBGH group, namely the need for approval of the Restructuring Plan and the continued reliance on System funding, which may cast significant doubt on the ability of PTSBGH to continue as a going concern The directors of Capital Home Loans have concluded that there is a material uncertainty regarding the ability of PTSBGH to continue to provide financial support to Capital Home Loans which may cast significant doubt on the ability of Capital Home Loans group to continue as a going concern

Having made due enquiries and considered the uncertainties described above, the directors of Capital Home Loans have a reasonable expectation that notwithstanding the continued funding and going concern challenges experienced by PTSBGH, continued financial support and funding will likely be available for the Capital Home Loans group for a period of at least 12 months from the date of approval of the Capital Home Loans group 2013 consolidated financial statements The intention to continue to support Capital Home Loans has been formally confirmed by Permanent TSB plc to Capital Home Loans For these reasons, the directors of Capital Home Loans continue to adopt the going concern basis in preparing the Capital Home Loans group financial statements

If the Capital Home Loans group were unable to continue as a going concern, then, as administrator of the mortgage book and loan notes of this company, Capital Home Loans, as Servicer, would be unable to continue realising assets and discharging liabilities on behalf of the company in the normal course of business Following on from the above, the directors of the company, having made due enquiries, have concluded that there is a material uncertainty which may cast doubt on the ability of the company to continue as a going concern The directors of the company have considered the uncertainty in the context of a period of at least 12 months from the date of approval of the company's financial statements and consider it appropriate to continue to adopt the going concern basis in preparing the financial statements The financial statements do not include any adjustments that would be required if Capital Home Loans, as administrator of this company's mortgage book and loan notes, and consequently the company, were unable to continue as a going concern

By order of the Board on 24 June 2014 and signed on behalf by

Mignon Clark
Wilmington Trust SP Services (London) Limited
Secretary

DIRECTORS' REPORT

The directors note that, as a result of the strategic report and directors report regulation 2013 (which are amendments to the Companies Act 2006) some of the reporting which would previously have been contained within the directors' report must now (along with certain other reporting) appear within the strategic report The directors' report now refers to the remaining statutory information requiring disclosure

Directors

The following directors are in office at the date of approval of the financial statements and have held office since 1 January 2013

M McDermott
D R Fisher
Wilmington Trust SP Services (London) Limited

Corporate governance statement

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

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

For further details, refer to the notes to the financial statements particularly note 16 on financial risk management

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

Policy on payment of creditors

The company is responsible for agreeing terms and conditions under which business transactions with suppliers are conducted It is the company's policy that payments to suppliers are made in accordance with these terms, normally between 30 and 60 days, provided that the supplier is also complying with all relevant terms and conditions

Political and charitable contributions

The company made no political or charitable contributions during the year

Disclosure of information to auditor

The directors who held office at the date of approval of this directors report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

Subsequent events

There have been no significant events affecting the company since the year end

DIRECTORS' REPORT - continued

Auditors

PricewaterhouseCoopers have been appointed as auditors of the company, replacing KPMG who were the statutory auditors for 2012, and will continue in office in accordance with the UK Companies Act 2006

On behalf of the board

Mignon Clarke

Wilmington Trust SP Services (London) Limited
Secretary

24 June 2014

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

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations

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

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

In preparing the company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company s transactions and that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities pwc

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUBURN SECURITIES 3 PLC

We have audited the financial statements of Auburn Securities 3 plc for the year ended 31 December 2013 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity, the Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Opinion on financial statements
In our opinion the financial statements.

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUBURN SECURITIES 3 PLC - continued

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the basis of preparation note within the statement of Accounting Policies concerning the company's ability to continue as a going concern This note sets out certain factors, risks and uncertainties which have been considered in the directors' assessment of the ability of the company's servicer Capital Home Loans Limited (CHL) and consequently the company's ability to continue as a going concern These matters indicate the existence of material uncertainties which may cast significant doubt about the company's servicer CHL, and consequently the company's ability, to continue as a going concern The financial statements do not include adjustments that would result if the company was unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ivan McLoughlin

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

24 June 2014

ACCOUNTING POLICIES

Statement of compliance
The statutory financial statements set out herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU The standards adopted by the company are those that are effective and adopted by the European Union as of the date of the company's statement of financial position

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Basis of preparation
Auburn Securities 3 plc is a company incorporated in the United Kingdom The principal activities are outlined in the strategic report

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, which have been stated at their fair values The accounting policies that the company has applied in the preparation of the financial statements for the year ended 31 December 2013 have been set out below

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities Actual results may differ from the estimates made The estimates and assumptions are reviewed on an ongoing basis and where necessary are revised to reflect current conditions The principal estimates and assumptions made by management relate to loans and advances impairment provisions including security valuations and interest rate assumptions Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20

Basis of preparation – Going concern
It is expected that the company will continue to have sufficient cash inflows from its current cash resources and its mortgage book to meet its ongoing obligations, in particular for its senior non-recourse debt providers

The company is dependent on Capital Home Loans to administer the mortgage book and loan notes on behalf of the company The company is considered to be a subsidiary of Capital Home Loans owing to the specific terms set out in the governing documentation relating to this entity and its securitised assets Capital Home Loans has incurred losses for the past number of years and expects to register continued losses going forward Capital Home Loans is wholly owned by and is dependent on Permanent TSB Group Holdings Public Limited Company ("PTSBGH") for continued financial support PTSBGH recorded continued losses in 2013, is majority owned by the Irish State and continues to be dependent on Monetary Authority financial support in Ireland

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ACCOUNTING POLICIES - continued

Basis of preparation – Going concern - continued

Having made due enquiries and considered the uncertainties described above, the directors of Capital Home Loans have a reasonable expectation that notwithstanding the continued funding and going concern challenges experienced by PTSBGH, continued financial support and funding will likely be available for the Capital Home Loans group for a period of at least 12 months from the date of approval of the Capital Home Loans group 2013 consolidated financial statements The intention to continue to support Capital Home Loans has been formally confirmed by Permanent TSB plc to Capital Home Loans For these reasons, the directors of Capital Home Loans continue to adopt the going concern basis in preparing the Capital Home Loans group financial statements

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Cash and cash equivalents and restricted cash balances

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than investing or other purposes Cash and cash equivalents consist of cash and balances with banks that are freely available, bank overdrafts and short term borrowings and non-equity investments with a maturity of three months or less from the date of acquisition

Restricted cash comprises cash held which is required by the company's governing documentation to be utilised primarily to repay its non-recourse borrowings These amounts are separate from any of the company's own (unrestricted) cash balances in the statement of financial position and in the statement of cash flows

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the company has no intention of trading They are initially recorded at fair value and subsequently measured at amortised cost less an allowance for incurred impairment losses Income is recognised on an effective interest basis as interest income in the statement of comprehensive income

The company assesses impairment of these financial assets at each balance sheet date on a case by case basis for assets that are individually significant and collectively for assets that are not individually significant

Assets are impaired only if there is objective evidence that the result of one or more events that have occurred after the initial recognition of the asset have had an impact on the estimated future cash flows of the assets For individual assets this includes changes in the payment status of the counterparty Collective assessment groups together assets that share similar risk characteristics and applies a collective provisioning methodology, based on existing risk conditions or events which have a strong correlation with a tendency to default This impairment is calculated by comparing the present value of the cash flows discounted at the effective interest rate applicable to the asset (after taking into account security held) with the carrying value in the statement of financial position

Write-offs are charged against previously established provisions for impairment or directly to the statement of comprehensive income

ACCOUNTING POLICIES - continued

Determination of fair value of financial instruments (revised following adoption of FRS 13)
The company measures financial instruments, such as, derivative financial instruments, at fair value on initial recognition

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

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

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

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

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

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

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

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

Derivatives
Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently classified as financial assets or liabilities held for trading Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability The gain or loss on re-measurement to fair value at the balance sheet date is recorded in the statement of comprehensive income within net interest income as all of the entity's derivatives on hand are treated as held for trading purposes for the purpose of this accounting policy

A derivative may be embedded in another financial instrument, known as a "host contract" Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host and recorded on the statement of financial position at fair value Subsequent movements in fair value of the embedded derivative are posted to the statement of comprehensive income, whilst the host contract is accounted for according to the policy for that class of financial instrument

Fair values of derivative instruments held by the company were determined by using discounted cash flow analyses, where appropriate Further details on how such derivatives are fair valued are outlined in note 15

Segment reporting
A segment is a distinguishable component of the company which is segregated based on data that the chief operating decision makers receive and use to make key decisions and which is subject to risks and rewards that are different from those of other segments

ACCOUNTING POLICIES - continued

Foreign currencies
The financial statements are presented in Pounds Sterling, which is the company's functional currency Except where otherwise indicated, financial information presented in Pounds Sterling has been rounded to the nearest thousand ('000')

Foreign currency transactions are translated into Pounds Sterling at the exchange rate prevailing at the date of the transaction Monetary assets and liabilities denominated in foreign currency are translated to pounds sterling at the exchange rates prevailing at the balance sheet date Exchange movements on these are recognised in the statement of comprehensive income

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

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

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

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

Interest income and expense
Interest income and expenses are recognised in the statement of comprehensive income using the effective interest method The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate Transaction costs are incremental costs that are directly attributable to the acquisition or issuance of a financial asset or liability

Deferred consideration
Under the terms of an agreement between the company and a related undertaking, the company has a liability for future deferred consideration which is contingent on the occurrence of certain future events, principally the realisation of excess income by the company This instrument is treated as a financial liability carried at amortised cost, however the directors consider that the future net income arising cannot ordinarily be forecast with reasonable accuracy and accordingly the carrying value of the instrument is revised each year to reflect actual contracted cash flows due

ACCOUNTING POLICIES - continued

New and revised IFRS's in issue but not yet effective
The company has not yet applied the following new and revised IFRSs that have been issued by the IASB but are not yet effective at 31 December 2013

Standard	Description of change	Effective date	Impact
IFRS 10 – Consolidated Financial Statements	IFRS 10 becomes effective for annual periods beginning on or after 1 January 2014 as endorsed by the EU It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities The revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements IFRS 10 replaces the definition of control under which an entity uses to determine whether to consolidate an investee The definition of control is revised to include the need for the investor to have both power and variable returns from the investee Previously, control was defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities	Annual periods beginning on or after 1 January 2014 as adopted by the EU	The application of the new standard will not have an impact on the financial position or the performance of the Company
IFRS 11 – Joint Arrangements	This standard becomes effective for annual periods beginning on or after 1 January 2014 as endorsed by the EU It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change	Annual periods beginning on or after 1 January 2014 as adopted by the EU	The application of the new standard will not have an impact on the financial position or the performance of the Company
IFRS 12 – Disclosures of Interests in Other Entities	This standard becomes effective for annual periods beginning on or after 1 January 2014 as endorsed by the EU It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates These disclosures relate to an entity s interests in subsidiaries, joint arrangements, associates and structured entities A number of new disclosures are also required One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity	Annual periods beginning on or after 1 January 2014 as adopted by the EU	The application of the new standard will not have an impact on the financial position or the performance of the Company
IAS 27 Separate Financial Statements (revised)	As a consequence of the new IFRS 10 and IFRS 12, IAS 27 has been revised to only deal with the requirements on separate financial statements	Annual periods beginning on or after 1 January 2014 as adopted by the EU	This revision will not have an effect on the financial statements of the Company

ACCOUNTING POLICIES - continued

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

Standard	Description of change	Effective date	Impact
IAS 28 Investments in Associates and Joint Ventures (revised)	As a consequence of the new IFRS 11 and IFRS 12, IAS 28 is revised to set out the requirement for the equity method when accounting for investments in associates and joint ventures The standard defines significant influence, provides guidance on how the equity method of accounting is to be applied and how investments in associates and joint ventures should be tested for impairment	Annual periods beginning on or after 1 January 2014 as adopted by the EU	This revision will not have an effect on the financial statements of the Company
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities	An amendment to IFRS 10, IFRS 12 and IAS 27 was issued in October 2012 This introduced an exception to the principle that all subsidiaries shall be consolidated The amendment defines investment entities and requires a parent that is an investment entity to measure its investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 instead of consolidating those subsidiaries in its consolidated and separate financial statements	Annual periods beginning on or after 1 January 2014 as adopted by the EU	This revision will not have an effect on the financial statements of the Company
IFRS 9 – Financial Instruments	IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets IFRS 9 was amended in October 2010 to include requirement for the classification and measurement of financial liabilities and for de-recognition <u>Key requirements of IFRS 9</u> Financial Assets – The multiple classification model for financial assets from IAS 39 is replaced with only two classification categories, amortised cost and fair value IFRS 9 introduces a two-step classification approach which involves the entity considering its business model and the contractual cash flow characteristics of the financial assets The requirement to separate embedded derivatives from financial asset hosts and cost exemption for unquoted entities no longer applies Financial Liabilities – IFRS 9 does not change the accounting for financial liabilities from IAS 39 The requirement to separate embedded derivatives from financial liabilities hosts remains If an entity chooses to measure a liability at fair value through profit or loss, the portion of the change in fair value related to changes in the entity's own credit risk is presented in the statement of other comprehensive income rather than within the income statement The IASB is also currently working on phase 2 and 3 of the IFRS 9 project which deals with impairments and hedge accounting However, as of now, there are no official dates as to when work from these phases will be incorporated into IFRS 9	Annual periods beginning on or after 1 January 2018	Application of IFRS 9 is expected to have significant impact on Company's financial position and performance However, the Company is unable to quantify the full potential impact as the standard is not fully finalised by the IASB The EU has advised that the standard will only be endorsed when it is fully complete and has requested to postpone the mandatory application date of 1 January 2018

ACCOUNTING POLICIES - continued

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

In the current year, the Company has applied the following new and revised IFRSs issued by the IASB and endorsed by the EU that are mandatorily effective for accounting periods that began on or after 1 January 2013

(a) Amendment to IFRS 7 – Offsetting Financial Assets and Liabilities
The Company has applied this amendment for the first time in the current year retrospectively This amendment requires entities to disclose information about rights to offset and related arrangements for financial instruments under an enforceable master netting or similar agreement This amendment does not have any impact on the Company's financial statements as the Company currently does not have any master netting agreements with counterparties

(b) Amendments to IAS 1 – as part of the Annual Improvements to IFRSs 2009 – 2011 (Cycle issued in May 2012)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Company), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes This amendment affects the presentation only and has no impact on the Company's financial position or performance

(c) IFRS 13 – Fair Value Measurement
The Company has applied IFRS 13 for the first time in the current year which establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date under the current market conditions IFRS 13 replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 and as a result the additional disclosures are included in the measurement basis and fair value of financial instruments note to the financial statements

In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures The application of this standard has no material impact on Company's measurement of assets and liabilities

STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	2013 £'000	2012 £'000
Assets			
Cash at bank - restricted	17	34,048	34,146
Derivative asset	2	64	80
Loans and advances to customers	1	62,815	67,384
Deferred tax asset	8	284	329
Prepayments and accrued income	3	10	4
Total asset		97,221	101,943
Liabilities			
Bank loans and overdraft	4	19,000	19,000
Non-recourse funding	5	64,635	69,141
Current tax liability	6	2	2
Accruals and deferred income	7	14,547	14,750
Total liabilities		98,184	102,893
Equity			
Share capital	9	12	12
Retained earnings	10	(975)	(962)
Total equity attributable to equity holders of the company		(963)	(950)
Total liabilities and equity		97,221	101,943

The financial statements on pages 10 to 38 were approved by the board of directors on 24 June 2014 and were signed on its behalf by

Mignon Clarke
Wilmington Trust SP Services (London) Limited
Director

STATEMENT OF COMPREHENSIVE INCOME
Year Ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Interest income	11	1,422	1,630
Interest expense	12	(1,463)	(1,523)
Net interest (expense)/income - continuing operations		(41)	107
Other operating income/(expenses)		94	(89)
Impairment losses on loans and advances	1	(20)	(24)
Profit/(loss) before income tax - continuing operations	13	33	(6)
Income tax expense	14	(46)	(27)
Total comprehensive loss for the year	10	(13)	(33)
Loss attributable to the owners of the company		(13)	(33)

STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2013

	Share capital £'000	Retained earnings £'000	Total equity £'000
31 December 2013			
Balance at beginning of the year	12	(962)	(950)
Total comprehensive income for the year - loss	-	(13)	(13)
Balance at end of year	12	(975)	(963)
31 December 2012			
Balance at beginning of the year	12	(929)	(917)
Total comprehensive income for the year - loss	-	(33)	(33)
Balance at end of year	12	(962)	(950)

STATEMENT OF CASH FLOWS
Year Ended 31 December 2013

	2013 £'000	2012 £'000
Cash flows from operating activities		
Profit/(loss) before taxation for year	33	(6)
Adjustments for		
(Increase)/decrease in assets		
Loans and advances to customers	4,569	5,832
Prepayments and accrued income	(6)	1
Derivative assets	16	85
Increase/(decrease) in liabilities		
Non-recourse funding	(4,506)	(6,265)
Accruals and deferred income	(203)	(1,297)
Corporation tax paid	(1)	(2)
Net cash from operating activities	(98)	(1,652)
Cash flows from financing activities		
Divestiture of restricted cash	98	1,652
Net cash flows arising from investing activities		
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS

1 Loans and advances to customers

	2013 £'000	2012 £'000
Loans and advances to customers	62,815	67,384
All represented by residential mortgages in the UK	62,815	67,384

In November 2002, the company purchased the rights to certain cash flows from £397 9 million of mortgage assets from Capital Home Loans Limited, a wholly owned subsidiary of Permanent TSB Group Holdings plc and a related entity These assets are a portfolio of United Kingdom residential mortgages, wholly secured on properties in the United Kingdom In order to fund the purchase of these mortgage assets, the company issued a series of floating rate notes

Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the mortgage assets purchased and any related income generated by the portfolio, and have no recourse to Capital Home Loans Limited, the mortgage originator

Capital Home Loans Limited is not obliged to support any losses which may arise in respect of the mortgage assets During the term of this transaction, any amounts realised from the mortgage portfolio in excess of that due to the providers of the funding, less any related administrative costs, will be payable to Capital Home Loans Limited in the form of deferred consideration

All loans and advances to customers are measured at amortised cost The fair value of loans and advances to customers is disclosed in note 15 All of the above loans are secured on residential properties located in the United Kingdom A maturity and credit risk analysis of loans and advances to customers is shown in note 16

Impairment losses on loans and advances	2013 £'000	2012 £'000
Balance at beginning of year	-	-
Charged to statement of comprehensive income	20	24
Amounts written off	2	(24)
Balance at end of year	22	-

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

Included in interest income is a total of £0 004m in 2013 (2012 £0 01m) accrued on impaired financial assets of the company

2 Derivative financial instruments

	2013		2012	
	Positive/ (negative) fair value £'000	Notional amount £'000	Positive/ (negative) fair value £'000	Notional amount £'000
Derivative assets				
Interest rate swaps with Capital Home Loans Limited	64	62,815	80	67,384

The above interest rate swaps are treated as held for trading in Auburn Securities 3 plc and the movement in fair value for these swaps has been accounted for within net interest income

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Prepayments and accrued income

	2013 £'000	2012 £'000
Other debtors	10	4

All amounts fall due with one year

4 Bank loans and overdrafts

	2013 £'000	2012 £'000
Amounts due to other banks and credit institutions	19,000	19,000

Key terms attaching to these amounts are included in notes 15 and 16

5 Non-recourse funding

	2013 £'000	2012 £'000
Mortgage backed loan notes	63,175	67,637
Plus adjustment to effective interest rate	1,460	1,504
	64,635	69,141

On 25 November 2002, the company issued £397 9 million in mortgage backed loan notes in order to fund the purchase of a mortgage portfolio During 2009, the company opted to extend certain of its debt arrangements beyond the originally expected maturity, incurring an additional interest margin The effect of this has been reflected in the balance presented above as is required using the effective interest rate methodology prescribed by IAS 39

The floating rate loan notes are secured by a portfolio of mortgage loans which are secured by first charges over residential properties in the United Kingdom The mortgages were purchased from Capital Home Loans Limited, which is a wholly owned subsidiary of Permanent TSB Group Holdings plc The mortgage portfolio is administered by Capital Home Loans Limited

The mortgage backed loan notes are listed on the London Stock Exchange Maturity date is November 2039

Interest on the notes is payable, monthly in arrears, at the following rates

£400 million mortgage backed loan notes	Balance outstanding at end of year £'000	Up to November 2009	After November 2009
Class A1 (£106 2 million)	nil	LIBOR + 0 18%	LIBOR + 0 36%
Class A2 (£267 6 million)	36,975	LIBOR + 0 325%	LIBOR +0 65%
Class M (£26 2 million)	26,200	LIBOR + 1 25%	LIBOR + 2 24%

The class A1 notes have been fully repaid

The A1 and A2 notes ("the senior notes') rank pari passu in point of payment and security without preference or priority amongst themselves The senior notes rank in priority to the M notes in point of payment and security

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Non-recourse funding - continued

Optional redemption

Auburn Securities 3 plc may, at its option, redeem all (but not some only) of the notes at their principal amounts outstanding

a) in the event of certain tax changes affecting the notes, the swap agreement or the mortgages comprising the mortgage pool at any time,
b) on the interest payment date falling in November 2009 or any interest payment date falling thereafter,
c) on any interest payment date on which the aggregate principal amount outstanding of the notes is less than 10% of the total aggregate principal amount outstanding of the notes at the issue date

6 Current tax liability

	2013 £'000	2012 £'000
Payable within one year	2	2

7 Accruals and deferred income

	2013 £'000	2012 £'000
Deferred consideration	7,739	7,904
Amounts due to Capital Home Loans	6,654	6,689
Accruals and deferred income	154	157
	14,547	14,750

During 2012 and 2013, certain conditions relating to the credit rating of Permanent TSB Group Holdings Plc were not met, and consequently additional cash contributions were received by Auburn Securities 3 plc from Permanent TSB plc via Capital Home Loans amounting to £6 6 million (2012 £6 67 million) as agreed with the rating agency

8 Deferred tax

	2013 £'000	2012 £'000
At start of year	(329)	(354)
Charged in year (see note 14)	45	25
At end of year	(284)	(329)
Deferred tax assets - effective interest rate adjustment	(297)	(347)
Deferred tax liabilities - derivatives	13	18
At end of year	(284)	(329)

Deferred tax has been calculated at 21 5%/20% as Finance Act 2012 (passed July 2012), introduced the 23% rate from 1 April 2013 and Finance Act 2013 passed in July 2013, and therefore prior to 2013 balance sheet date, introduced the 21% rate from 1 April 2014 Finance Act 2013 also enacted the 20% tax rate with effect from 1 April 2015

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Called up share capital

	2013 £'000	2012 £'000
Authorised		
Ordinary shares of £1 each	50	50
Allotted, called up and fully paid		
2 ordinary shares of £1 each	-	-
Allotted, called up and partly paid		
49,998 ordinary shares of £1 each of which £0 25 has been paid up	12	12
	12	12

10 Reconciliation of movement in shareholders' equity

	Share capital £'000	Retained earnings £'000	Total equity £'000
31 December 2013			
At beginning of year	12	(962)	(950)
Changes in equity for 2013			
Loss on ordinary activities after taxation	-	(13)	(13)
Total shareholders' equity	12	(975)	(963)
31 December 2012			
At beginning of year	12	(929)	(917)
Changes in equity for 2012			
Loss on ordinary activities after taxation	-	(33)	(33)
Total shareholders' equity	12	(962)	(950)

11 Interest income

	2013 £'000	2012 £'000
Mortgage interest receivable	1,346	1,470
Deposit interest receivable	60	141
Other income	16	19
Fair value movement on interest rate swaps	-	-
	1,422	1,630

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

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Interest expense

	2013 £'000	2012 £'000
On mortgage backed loan notes	1,162	1,318
On interest rate swaps	120	52
Other interest expense	188	108
Fair value movement on interest rate swaps	17	85
Additional interest (released)/recognised on non-recourse funding	(44)	(72)
CSA interest payable to Capital Home Loans	20	32
	1,463	1,523

13 Profit/(loss) before tax - continuing operations

	2013 £'000	2012 £'000
Included within profit/(loss) before tax are the following		
Auditors' remuneration		
- audit fee	4	4
- other non-audit work	7	7
Deferred consideration	(165)	(11)
Fair value losses/(gains) on interest rate swaps	17	85

The directors received no remuneration from the company for their services as directors The company has no employees and services required are contracted from related parties (see note 19)

14 Income tax charge

	2013 £'000	2012 £'000
Corporation tax at 23 25% (2012 24 5%)	1	2
Deferred tax (see note 8)	45	25
Total income tax charge/(credit)	46	27

The tax assessed for the period differs from the standard rate of corporation tax in the United Kingdom of 23 25% (2012 24 5%) The differences are explained below

	2013 £'000	2012 £'000
Profit/(loss) before taxation	33	(6)
Profit/(loss) by standard rate of corporation tax in UK of 23 25% (2012 24 5%)	8	(1)
Effects of		
Other	38	28
Effective tax charge in year	46	27

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

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Fair values of financial instruments

	At amortised cost		At fair value through statement of comprehensive income	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
As at 31 December 2013				
Assets				
Cash at bank - restricted	34,048	34,048	-	-
Loans and advances to customers	62,815	51,822	-	-
Derivative assets	-	-	64	64
	96,863	85,870	64	64
Liabilities				
Non recourse funding	64,635	64,635	-	-
Deferred consideration	7,739	-	-	-
Amounts due to Capital Home Loans	6,654	3,400	-	-
Bank loans and overdrafts	19,000	19,000	-	-
	98,028	87,035	-	-
As at 31 December 2012				
Assets				
Cash at bank - restricted	34,146	34,146	-	-
Loans and advances to customers	67,384	50,538	-	-
Derivative assets	-	-	80	80
	101,530	84,684	80	80
Liabilities				
Non recourse funding	69,141	66,888	-	-
Deferred consideration	7,904	-	-	-
Amounts due to Capital Home Loans	6,689	-	-	-
Bank loans and overdrafts	19,000	19,000	-	-
	102,734	85,888	-	-

The following table sets out the fair values of financial instruments that the company holds at 31 December 2013 It categorises these securities into the relevant level on fair value hierarchy As permitted by IFRS 13, this information is only provided for 31 December 2013

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Fair values of financial instruments - continued

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

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted)
Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data

	Carrying amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000
As at 31 December 2013					
Assets					
Cash at bank - restricted	34,048	34,048	-	-	34,048
Loans and advances to customers	62,815	-	-	51,822	51,822
Derivative assets	64	-	64	-	64
	96,927	34,048	64	51,822	85,934
Liabilities					
Non recourse funding	64,635	-	-	64,635	64,635
Deferred consideration	7,739	-	-	-	-
Amounts due to Capital Home Loans	6,654	-	-	3,400	3,400
Bank loans and overdrafts	19,000	19,000	-	-	19,000
	98,028	19,000	-	68,035	87,035

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Fair values of financial instruments - continued

The fair values of each of the above financial instruments have been derived by discounting expected future cash flows at prevailing interest rates For loans and advances to customers, non-recourse funding and derivative instruments, this involved the estimation of the timing of receipts of cash flows from the underlying mortgage books as the timing of payment for both the non-recourse funding and the derivatives is dependent on the timing of cash flows from the securitised mortgage books The principal underlying assumptions related to these cash flows are as follows

- The fair value of loans and advances to customers was derived by comparing the actual interest income yield from the company's fixed rate mortgage book with the current average interest income yield for new mortgages with similar profiles adjusting for the appropriate credit spread differential and discounting the relevant projected cash flows to fair value Where external evidence of fair value is available, this is used (eg bid prices for loan books)
- The fair value of non-recourse funding has been arrived at by adjusting the carrying value of the debt by a similar proportion to the adjustment made in arriving at the fair value of loans and advances to customers, on the basis that the funding only has recourse to this mortgage book
- The interest rate swap fair value was derived by discounting expected cash-flows on the swap, which are dependent on the timing of cash flows from the securitised mortgage book In this regard, the company has made certain assumptions regarding the timing of these cash flows which are based on both contracted mortgage terms and an historical analysis of the timing of average cash flows and effective lives of the underlying mortgages Principally, these assumptions were as follows

    - Remaining life of 5 years
    - Discount rate 0 67%
    - Assumed redemption rate 7 8% per annum

These assumptions are, other than the discount rate, which is broadly based on current LIBOR rates applicable to the company plus credit spread, not based on observable market data, and accordingly are level 3 fair values as set out in the fair value hierarchy in IFRS 7, because they are dependent largely on the assumed performance of the underlying mortgage book as the interest rate swap is specifically designed to reflect the cash flows from the underlying mortgage book In this regard, management has based these assumptions on its past experience of similar mortgage books originated in Capital Home Loans and on particular recent trends observed specifically in relation to this mortgage book in terms of arrears and expected terms The total amount recognised in the statement of comprehensive income in relation to this favourable estimate in the year was £0 02m (2012 £0 08m loss) In terms of sensitivities of the above, any reasonably possible change to the cash flow payment or discount rate assumptions for any of the mortgage books, or derivatives would have an equal and opposite effect on the associated borrowings because of the nature of the sensitivities

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management

(a) Introduction and overview

The company's financial instruments comprise mortgage assets, borrowings, comprising non-recourse funding raised from external investors as part of the original securitisation transaction, cash and liquid resources and other sundry instruments such as debtors and creditors arising directly from the company's operations The company has also entered into interest rate swaps designed to mitigate interest rate risk arising from interest basis mismatches within the company's interest bearing assets and liabilities Further details on derivative transactions are provided below The main risks arising from the company's financial instruments held are credit risk, interest rate risk, operational risk, market risk and liquidity risk The company's administrator reviews and agrees policies for managing each of these risks and they are, broadly, as follows

Credit risk

Credit risk is the risk that counterparties engaging in transactions with the company will not be able to meet their obligations as they fall due and arises principally from the company's loans and advances to customers For risk management reporting purposes the company considers and consolidates all elements of credit risk exposure (such as obligor default risk and sector or geographic risk) The company has established high level credit policies which are used to control the quality of lending and the management of any amounts in arrears Additionally, the company provides for loan losses which are known to have been incurred within its asset portfolio, based on both a specific review and a statistical analysis of its historical loan loss write-offs This process of credit monitoring takes account of external or economic factors and may result in the adjustment of credit policies to suit product or sectoral needs Due to the nature of the book, significant new credit exposures to particular sectors or individuals do not typically arise Credit risk is accordingly monitored largely through the management of arrears on these loans A summary credit risk analysis has been included below

Interest rate risk

Interest rate risk exists when assets and liabilities attract interest rates set according to different bases or which are reset at different times The company assumes interest rate risk principally from its dealings with its securitised book of residential mortgage loans The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar Sensitivity to interest rate movements is set out below, and this provides some detail on the year-end re-pricing profile for the company's financial assets and liabilities A liability (or negative) gap exists when liabilities re-price more quickly or in greater proportion than assets during a given period This tends to benefit net interest income when rates are falling An asset (or positive) gap exists when assets re-price more quickly or in greater proportion than liabilities during a given period This tends to benefit net interest income when rates are rising Interest rate sensitivity may vary during re-pricing periods As part of the securitisation transactions however, the company established an interest rate swap, which has the effect of converting the interest basis of all mortgage assets to floating LIBOR which matches the interest rate basis of all the company's liabilities The net effect of this interest rate swap is that the company is effectively left with no interest rate risk, and the table overleaf reflects this

Operational risk

This is the potential for financial or reputational loss if key internal controls were to fail It includes loss from theft, error and systems breakdown The administrator's compliance department and its key management are tasked with the monitoring and control of such risk on behalf of the company A self-assessment process of risk mapping is conducted formally each year by management, and testing of key areas of these controls is performed periodically

Market risk

This is the risk of financial loss from changes in market prices of financial instruments, typically from the movements in interest rates and foreign exchange rates The company has limited exposure to foreign exchange rate fluctuations Interest rate risk management policies are separately documented above

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(a) Introduction and overview - continued

Liquidity risk

Liquidity risk is the risk that the company will be unable to meet financial commitments arising from the cash flows generated by its business activities This risk can arise from mismatches in the timing of cash flows relating to assets and liabilities, however the company's principal liabilities, its loan notes, are structured specifically so as to mature broadly at the same time as the securitised assets are repaid Additionally there are other liquidity facilities available to the company in the event that mortgages do not yield funds Regular reports on liquidity are submitted where appropriate, to the independent trustee of the company's loan notes and to the relevant regulatory authorities During 2012 and 2013, the Company drew certain additional borrowings in order to provide additional cash security to the Company, owing to a ratings downgrade related to the existing swap providers

The company is also bound by certain financial and liquidity terms attaching to its non-recourse funding which effectively restricts certain of its cash balances on hand Details of these have been provided below and further detail related to the company's current liquidity position is set out in the basis of preparation note

Derivative transactions

The company has entered into a series of interest rate swaps This is a particular requirement of the non-recourse funding raised from the original mortgage securitisation and the terms of this securitisation and the related interest rate swaps are set out in more detail in the notes to these financial statements These interest rate swaps have been treated as being held for trading purposes in the company's financial statements Credit risk associated with these transactions is managed as part of the company's adherence to specified procedures as set out in its governing documentation including adhering to a strict priority of payments and making regular reports to the loan note trustees

Capital management

The company does not have any particular capital requirements as mandated by the Financial Conduct Authority, principally because it does not accept deposits from customers, however its capital is negotiated from time to time with HM Revenue and Customs Because of its special purpose nature, the company's principal funding comes through its non-recourse debt, which is intended to be repaid fully from the mortgage assets on hand Capital is considered by management to comprise share capital on hand, retained earnings and any subordinated loans received from time to time, is considered to be sufficient for the particular nature of the company's activities and is in line with the company's governing documentation There have been no changes to the company's approach to capital management during the year

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(b) Credit risk

(i) Loans and advances to customers - exposure to credit risk	2013 £'000	2012 £'000
Total carrying amount - maximum exposure to credit risk	62,815	67,384
Individually impaired	147	240
Allowance for impairment	(16)	-
Carrying amount	131	240
Collectively impaired	587	254
Allowance for impairment	(6)	-
Carrying amount	581	254
Neither past due nor impaired	60,284	64,795
Accounts with renegotiated terms	1,819	2,095
Total carrying amount	62,815	67,384

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

Impaired loans and securities
Impaired loans and advances are loans and securities for which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s) These are typically regarded as all loans in arrears for more than three months

Past due but not impaired loans
These are loans and advances where contractual interest or principal payments are past due but the company believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the company

Loans with renegotiated terms
These loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the company has made concessions that it would not otherwise consider Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring

Allowances for impairment
The company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment

Write-off policy
The company writes off a loan balance (and any related allowances for impairment losses) when it determines that the loans are uncollectible This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(b) Credit risk - continued

(i) Loans and advances to customers - continued

Write-off policy - continued
The table below shows an analysis of the Loan to Value for the mortgage portfolio

	2013 %	2012 %
Less than 50%	62	54
50% - 70%	25	31
71% - 90%	12	13
91% - 100%	1	2
At end of year	100	100

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

	2013 £'000	2012 £'000
Concentration by sector - carrying amount		
Residential	8,594	9,286
Buy to let	54,243	58,098
Less impairment provisions	(22)	-
	62,815	67,384
Concentration by location - carrying amount		
London & South East	37,381	40,423
North East	1,355	1,404
North Wales & North West	8,463	9,007
South & South West	10,135	10,739
Midlands	3,675	3,802
Other UK	1,828	2,009
Less impairment provisions	(22)	-
	62,815	67,384

(ii) Restricted cash on hand

At the year end the restricted cash on hand was held with one financial institution counterparty in the UK which is rated by Moodys as P-1, Fitch as F1 and S&P as A-1 This is a condition of the governing securitisation documentation and all of the cash is initially pledged to pay the non-recourse debt These ratings conform to the condition as set out by the governing securitization documentation

(iii) Derivative assets

All derivative assets on hand at the year end were held with a related undertaking This entity does not have an individual credit rating, however it is part of a large group, which is rated by Moodys as (E+) and Standard & Poors as (B+/B) The existence of this derivative, which eliminates all interest rate risk from this entity, is a requirement of the governing documents for the original securitisation

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(c) Liquidity risk

The tables below analyse the gross cash flows arising on the company's assets and liabilities by remaining contractual maturity at 31 December 2013 and 2012

At 31 December 2013	Carrying amount	Gross contractual cash flow	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash - restricted	34,048	34,048	34,048	-	-	-	-
Derivative assets	64	64	1	3	11	49	-
Loans and advances to customers	62,815	75,751	441	307	2,146	12,378	60,479
Prepayments	10	10	10	-	-	-	-
Total assets	96,937	109,873	34,500	310	2,157	12,427	60,479
Liabilities							
Bank loans	19,000	19,000	-	-	19,000	-	-
Non-recourse funding	64,635	74,833	432	286	2,058	11,951	60,106
Current tax liability	2	2	-	-	2	-	-
Accruals and deferred income	14,547	14,547	14,547	-	-	-	-
Total liabilities	98,184	108,382	14,979	286	21,060	11,951	60,106
Net cash flows		1,491	19,521	24	(18,903)	476	373

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(c) Liquidity risk - continued

At 31 December 2012	Carrying amount £'000	Gross contractual cash flow £'000	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Assets							
Cash - restricted	34,146	34,146	34,146	-	-	-	-
Derivative assets	80	80	3	7	31	39	-
Loans and advances to customers	67,384	85,764	324	647	2,905	15,335	66,553
Prepayments	4	4	4	-	-	-	-
Total assets	101,614	119,994	34,477	654	2,936	15,374	66,553
Liabilities							
Bank loans	19,000	19,000	19,000	-	-	-	-
Non-recourse funding	69,141	83,073	306	611	2,743	14,501	64,912
Current tax liability	2	2	-	-	2	-	-
Accruals and deferred income	14,750	14,750	14,750	-	-	-	-
Total liabilities	102,893	116,825	34,056	611	2,745	14,501	64,912
Net cash flows		3,169	421	43	191	873	1,641

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(d) Interest rate risk

The tables below summarise the interest rate re-pricing profiles of the company's interest bearing financial assets and liabilities

As at 31 December 2013	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank - restricted	34,048	-	-	-	-	-	-	-	34,048
Loans and advances to customers	62,815	-	-	-	-	-	-	-	62,815
Total financial assets	96,863	-	-	-	-	-	-	-	96,863
Bank loans and overdrafts	(19,000)	-	-	-	-	-	-	-	(19,000)
Non-recourse funding	(64,635)	-	-	-	-	-	-	-	(64,635)
Total financial liabilities	(83,635)	-	-	-	-	-	-	-	(83,635)
Net interest repricing gap	13,228	-	-	-	-	-	-	-	13,228
Cumulative repricing gap	13,228	13,228	13,228	13,228	13,228	13,228	13,228	13,228	13,228

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(d) Interest rate risk - continued

As at 31 December 2012	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank - restricted	34,146	-	-	-	-	-	-	-	34,146
Loans and advances to customers	67,260	-	124	-	-	-	-	-	67,384
Derivative asset	2	3	14	17	16	15	13	-	80
Total financial assets	101,408	3	138	17	16	15	13	-	101,610
Impact of interest rate swap	202	(3)	(138)	(17)	(16)	(15)	(13)	-	-
Financial assets after interest rate swap	101,610	-	-	-	-	-	-	-	101,610
Bank loans and overdrafts	(19,000)	-	-	-	-	-	-	-	(19,000)
Non-recourse funding	(69,141)	-	-	-	-	-	-	-	(69,141)
Total financial liabilities	(88,141)	-	-	-	-	-	-	-	(88,141)
Net interest repricing gap	13,469	-	-	-	-	-	-	-	13,469
Cumulative repricing gap	13,469	13,469	13,469	13,469	13,469	13,469	13,469	13,469	13,469

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Financial risk management - continued

(e) Currency risk

The company is not exposed to any significant currency risk as all of its financial assets and liabilities are denominated in sterling

(f) Sensitivity analysis

Because of the interest rate swap structure in place, any movement in interest rates should have no material effect on the company's statement of comprehensive income because the net impact of the swap is to remove all interest rate risk from the company Additionally, as noted elsewhere in these accounts the company is not exposed to currency risk

17 Other financial commitments

Restricted cash balances

Cash balances held includes restricted cash balances to the value of £34 0m (2012 £34 1m), which must be primarily utilised to make payments due on the company's non-recourse funding in priority to any other use

18 Ultimate parent undertaking

The company was established by a contract as part of an individual mortgage securitisation This contract governs the relationship between Capital Home Loans, the mortgage originator, Permanent TSB Group Holdings plc, Capital Home Loan's ultimate parent undertaking, and Auburn Securities 3 plc, whose activities are precisely defined in the relevant legal documents Capital Home Loans is the primary beneficiary of the operating policies of the company Accordingly, this entity has been consolidated within the Capital Home Loans consolidated financial statements, which are in turn consolidated within the financial statements of Permanent TSB Group Holdings plc, a company incorporated in the Republic of Ireland A copy of the consolidated group financial statements and annual report may be obtained from the following address 56-59 St Stephen's Green, Dublin 2, Republic of Ireland

19 Related party transactions

The company has related party relationships with its parent undertaking, Capital Home Loans Limited, Permanent TSB plc, with its ultimate parent undertaking, Permanent TSB Group Holdings plc, with Wilmington Trust SP Services (London) Limited and with its other directors Other than as detailed below, the directors undertook no transactions directly with the company during the year

The company undertook the following transactions with Capital Home Loans Limited in the year

	During the year ended 31 December 2013 £'000	As at 31 December 2013 £'000	During the year ended 31 December 2012 £'000	As at 31 December 2012 £'000
Loans and advances to customers	1,346	62,815	1,470	67,384
Deferred consideration due	165	(7,739)	11	(7,904)
Additional capital amounts due	35	(6,654)	(1,271)	(6,689)
Interest swap amounts due	(120)	(11)	(52)	(13)
Other administrative expenses paid	(10)	(1)	(10)	(1)
CSA interest payable	(20)	(2)	(32)	(2)

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Related party transactions - continued

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

	During the year ended 31 December 2013 £'000	As at 31 December 2013 £'000	During the year ended 31 December 2012 £'000	As at 31 December 2012 £'000
Other administrative expenses	(6)	(7)	(6)	(7)

The company incurred corporate service fee costs, payable to Wilmington Trust SP Services (London) Limited, of £12,000 in 2013 and 2012

20 Significant judgements/estimates made by management

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

Significant estimate	**Key details**
Going concern	Details set out in basis of preparation note
Loan loss provisioning	Details set out in note 1
Valuation of interest rate swaps	The timing of expected cash flows from the interest rate swaps is dependent on expected cash flows from the securitised mortgage book These estimates drive the fair value of the derivatives held for trading and the key underlying assumptions in arriving at this fair value are set out in note 15
Fair value of financial instruments	Details set out in note 15

21 Segment reporting

The company's principal business is the provision of residential and buy-to-let mortgages secured on properties in the United Kingdom All of the associated net results and assets are located in the United Kingdom and are derived from this business which is managed on a unified basis The company accordingly considers that it operates in one segment and that there are no separate reportable segments for which additional segment disclosures are required Details on the geographical analysis of the company's loan book and other details on its customers are set out in note 16 Additionally, there are no other segmental analyses reviewed by the company's chief operating decision maker in this regard

22 Approval of financial statements

The board of directors approved these financial statements on 24 June 2014