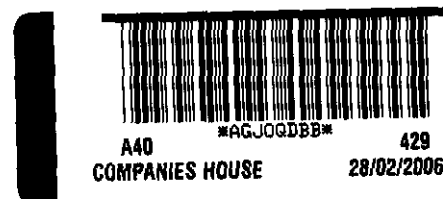


Business Mortgage Finance 2 PLC

Directors' Report and Financial Statements

**Registered Number 5216563
Year Ended 30 November 2005**



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Company Information

Directors

K Millward
O Pritchard
V Rapley

Company Secretary

Mourant & Co Capital Secretaries Ltd

Registered Office

6th Floor
69 Park Lane
Croydon
CR9 1TQ

Trading Address

Lutea House
Warley Hill Business Park
The Drive, Great Warley
Brentwood, Essex
CM13 3BE

Solicitors

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

Auditors

KPMG Audit PLC
1 The Embankment
Neville Street
Leeds
LS1 4DW

Bankers

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

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 30 November 2005.

Principal Activities

The sole purpose of the company is to issue mortgage backed securities to the market which are collateralised by commercial mortgage loans.

Business Review

On 15 February 2005 the company purchased a further £37.8 million of commercial mortgage loans from Ilford Funding Limited bringing the total purchased from the Commercial First group of companies to £150.0 million. The initial purchase of £112.2 million of commercial mortgages took place on 15 November 2004.

Results and Dividend

The profit for the financial period amounted to £7,539 (2004: £506). The directors do not recommend the payment of a dividend.

Financial Instruments

The financial instruments held by the company are made up of mortgages, borrowings and cash that arise directly from its operations.

The company has also entered into derivative transactions; an interest rate cap and an interest rate swap, the purpose of which is to manage the interest rate risk arising from the company's operations and funding.

The company's policy is that it has not, and will not trade in financial instruments.

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

Credit Risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages purchased by the company during the period were required to meet specific lending criteria. The ongoing credit risk of the portfolio is monitored by the directors on a monthly basis with particular focus on the arrears accounts.

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 company 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 company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Liquidity Risk

The company's policy is to manage liquidity risk by matching the timing of cash receipts from mortgage assets with those of the cash payments due on the loan notes.

Directors and Directors' Interests

The directors who held office during the period were as follows:

K Millward

O Pritchard

V Rapley

None of the directors who held office during the course of the financial period had any direct interest in the shares of the company.

Policy and Practice on Payment of Creditors

The company pays creditors in accordance with negotiated terms, which are typically 30 days from the date of the invoice.

Political & Charitable Donations

The company made no political contributions or charitable donations during the period.

Auditors

The auditors KPMG Audit PLC have expressed their willingness to continue in office, consequently a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

By order of the board



K Millward

Director

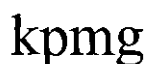
8 February 2006

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Report of the Independent Auditor to the Member of Business Mortgage Finance 2 PLC

We have audited the financial statements on pages 6 to 14.

This report is made solely to the company's member, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 November 2005 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Feb. 2006

Profit and Loss Account
for the year ended 30 November 2005

	<i>Note</i>	Year ended 2005 £000	Year ended 2005 £000	Period ended 2004 £000	Period ended 2004 £000
Interest receivable and similar income	2		14,340		958
Interest payable and similar charges	3		(13,302)		(551)
Net interest income			1,038		407
Other operating income			217		9
Total operating income			1,255		416
Operating expenses		(695)		(167)	
Provisions for bad and doubtful debts	5	(551)		(248)	
			(1,246)		(415)
Operating profit on ordinary activities before taxation	4		9		1
Tax on profit on ordinary activities	6		(2)		-
Retained profit for the year			7		1

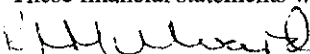
The results in the above profit and loss account relate entirely to continuing operations.

There are no recognised gains and losses other than the profit for the periods shown above, accordingly no statement of recognised gains or losses is required.

Balance Sheet
 At 30 November 2005

	<i>Note</i>	Year ended 2005 £000	Year ended 2005 £000	Period ended 2004 £000	Period ended 2004 £000
Fixed assets					
Mortgage loans	7		122,552		111,416
			<hr/>		<hr/>
Current assets					
Debtors	8	74		91	
Cash at bank and in hand		12,995		45,833	
		<hr/>		<hr/>	
			13,069		45,924
			<hr/>		<hr/>
			135,621		157,340
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	9	13		13	
Profit and loss account	10	8		1	
		<hr/>		<hr/>	
Shareholder's funds			21		14
Creditors: amounts falling due within one year	11		1,493		1,214
Creditors: amounts falling due after one year	12		134,107		156,112
			<hr/>		<hr/>
			135,621		157,340
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 8 February 2006 and were signed on its behalf by:



K Millward
 Director

Notes to the Financial Statements

1 Accounting policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Cash flow

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement, on the grounds that it is a wholly owned subsidiary undertaking and its cash flows appear in a consolidated cash flow statement in the financial statements of the ultimate parent company.

Deferred consideration

Under the terms of the securitisation the company retains the right to 0.01% per annum of the opening outstanding loan note balances. Profits in excess of 0.01% accrue to the seller of the mortgage loans and accordingly a creditor (deferred consideration) for amounts payable to the seller has been recognised at the end of the period. The payment of deferred consideration is strictly controlled by the priority of payments within the securitisation agreements which sets out how cash can be utilised.

Mortgage loans

Mortgages loans are stated at cost less provision for doubtful debts.

Provisions are made against the loans where in the opinion of the directors, credit risks or economic factors make recovery doubtful. The aggregate provisions made during the period are charged to the profit and loss account.

Mortgage Premium

The mortgage loan premium is being amortised on a straight line basis over the expected life of the securitisation. Loan premium amortised during the period is included in interest receivable.

Funding costs

Initial costs incurred in arranging funding facilities are amortised over the period of the facility. Funding costs amortised during the period are included in interest payable. Unamortised initial costs are deducted from the associated liability in accordance with FRS 4.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Transactions with Related Parties

The company, as a wholly owned subsidiary undertaking of BMF Holdings Limited has taken advantage of an exemption contained in FRS, in preparing its financial statements. This exemption allows the company not to disclose details of transactions with other group companies or investors of the group qualifying as related parties, as the consolidated financial statements of BMF Holdings Limited in which the company is included are available by application, to the trading address, as disclosed in note 16.

Notes to the Financial Statements

1 Accounting policies (continued)

Derivatives

Transactions are undertaken in derivative financial instruments ("derivatives") which include an interest rate swap and an interest rate cap. Derivatives are entered into for the purpose of eliminating risk from potential movements in interest rates inherent in the company's non-trading assets and liabilities. Non-trading assets and liabilities are those intended for use on a continuing basis in the activities of the company.

A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates of the derivative and the designated asset or liability being hedged. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are accounted for on an accruals basis, consistent with the asset or liability being hedged. Income and expenses on non-trading derivatives are recognised as they crystallise as an adjustment to interest payable and similar charges.

2 Interest income and similar fees

	Year ended 30 November 2005 £000	Period ended 30 November 2004 £000
On mortgage loans	13,521	877
Bank interest	910	87
Mortgage premium amortisation	(91)	(6)
	<u>14,340</u>	<u>958</u>

3 Interest payable and similar charges

	Year ended 30 November 2005 £000	Period ended 30 November 2004 £000
On loans repayable after five years:		
Mortgage backed loan notes	12,066	505
Interest on subordinated loan	786	27
Amortisation of start up costs	450	19
	<u>13,302</u>	<u>551</u>

4 Profit on ordinary activities before taxation

	Year ended 30 November 2005 £000	Period ended 30 November 2004 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging / (crediting)</i>		
Auditor's remuneration – Statutory audit	3	2
– Non audit services	-	-
Deferred consideration	84	154

Auditor's remuneration for non audit work of £74,550 (2004: £99,400) is included in deferred costs. The costs are being charged to the profit and loss account over four years, being the estimated life of the funding.

Notes to the Financial Statements

5 Provision for bad debts

	Year ended 30 November 2005 £000	Period ended 30 November 2004 £000
Charge for the period	551	248
	<u>551</u>	<u>248</u>
Provision held as a percentage of total mortgage loans	0.8%	0.5%

6 Taxation

Analysis of charge in period

	Year ended 30 November 2005 £000	Period ended 30 November 2004 £000
<i>UK corporation tax</i>		
Current tax on income for the period	2	-
	<u>2</u>	<u>-</u>
Total current tax	2	-
	<u>2</u>	<u>-</u>
Tax on profit on ordinary activities	2	-
	<u>2</u>	<u>-</u>

Factors affecting the tax charge for the current period

The current tax charge for the period (19%) is lower than the standard rate of corporation tax in the UK. The differences are explained below.

	2005 £000	2004 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	9	1
	<u>9</u>	<u>1</u>
Current tax at 19 %	2	-
	<u>2</u>	<u>-</u>
Total current tax charge (see above)	2	-
	<u>2</u>	<u>-</u>

Notes to the Financial Statements

7 Mortgage loans – net balances

	Mortgages	Mortgage premium	Mortgage loss provision	Total
	£000	£000	£000	£000
At 1 December 2004	111,670	275	(529)	111,416
Acquired on securitisation	37,726	94	(94)	37,726
Net movements	(26,089)	(91)	(410)	(26,590)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2005	123,307	278	(1,033)	122,552
	<hr/>	<hr/>	<hr/>	<hr/>

8 Debtors

	2005	2004
	£000	£000
Other debtors	74	91
	<hr/>	<hr/>
	74	91
	<hr/>	<hr/>

9 Called up share capital

	2005	2004
	£	£
<i>Authorised</i>		
50,000 Ordinary shares of £1.00 each	50,000	50,000
	<hr/>	<hr/>
	50,000	50,000
	<hr/>	<hr/>
<i>Allotted and called up</i>		
2 Ordinary shares of £1.00 each – fully paid	2	2
49,998 Ordinary shares of £1.00 each – 25% paid	12,500	12,500
	<hr/>	<hr/>
	12,502	12,502
	<hr/>	<hr/>

10 Reconciliation of movements in shareholder's funds

	Share capital	Share premium account	Profit and loss account	Total
	£000	£000	£000	£000
At 1 December	13	-	1	14
Retained profit for the year	-	-	7	7
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	13	-	8	21
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements

11 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Accruals and deferred income	1,493	1,214
	<u>1,493</u>	<u>1,214</u>

12 Creditors: amounts falling due after one year

	2005 £000	2004 £000
Mortgage backed loan notes due 2037	124,253	148,219
Subordinated loan	8,994	7,296
Deferred consideration	860	597
	<u>134,107</u>	<u>156,112</u>

All amounts falling due after more than one year fall due after more than five years, other than deferred consideration, the payment of which is uncertain, but is unlikely to fall due within one year.

The loan notes are secured over a portfolio of commercial mortgage loans secured by first charges on commercial property in the United Kingdom.

The mortgages were purchased from Colchester Funding Limited and Ilford Funding Limited and are administered by a third party on behalf of the company.

The loan notes are subject to mandatory redemption at each interest repayment date. The amount redeemed is equal to the principal collected on the mortgage loans in the preceding collection period. The loan notes will become due and payable on the interest payment date falling in February 2037 if they have not been redeemed or cancelled beforehand.

Interest is payable on the loan notes quarterly in arrears at the following rate above the London Interbank Offered Rate (LIBOR) for three month sterling deposits as summarised in the table below.

	Initial Issue	Redemption	Value at 30 November 2004	Up to 20 November 2011	After 20 November 2011
Class A	113,250,000	(24,415,381)	88,834,619	LIBOR + 0.29%	LIBOR + 0.58%
Class M	26,650,000	-	26,650,000	LIBOR + 0.90%	LIBOR + 1.80%
Class B	10,100,000	-	10,100,000	LIBOR + 2.80%	LIBOR + 3.80%
	<u>150,000,000</u>	<u>(24,415,381)</u>	<u>125,584,619</u>		
Less unamortised costs			(1,331,250)		
			<u>124,253,369</u>		

In addition to the above classes of bonds, two further instruments were issued at the point of securitisation:-

- An interest only coupon which entitles the holder to an interest rate of 2.75% based on the outstanding principal of the Class A notes.
- Mortgage Early Redemption Certificates which entitle the holder to any early redemption charges collected in the period on the underlying mortgages.

The subordinated loan at the initial issue was £7,295,776 and has risen to £8,994,000 at 30 November 2005. It bears interest at LIBOR plus 4% and is subordinated to the loan notes.

Notes to the Financial Statements

13 Contingent liabilities

The company has no contingent liabilities as at 30 November 2005.

14 Derivatives and other financial instruments

As noted on page 2 the company uses financial instruments in the course of its business. The following numerical analysis shows the significance of these instruments to the company.

Interest rate risk

The table below summarises the interest rate profile of the company's financial instruments after taking into account the effect of any interest rate derivatives used to manage the risk associated with these instruments. The analysis excludes short term non-mortgage debtors and creditors. The directors consider that interest rate caps are unlikely to be effective in the foreseeable future and have excluded them from interest rate risk analysis.

	Floating £000	Non interest bearing £000	Total £000
Financial assets:			
Mortgages	123,307	(755)	122,552
Cash at bank and in hand	12,995	-	12,995
Gross financial assets	136,302	(755)	135,547
Financial liabilities:			
Mortgage backed loan notes due 2037	125,585	(1,332)	124,253
Subordinated Loan	8,994	-	8,994
Gross financial liabilities	134,579	(1,332)	133,249

Fair Value disclosures

No analysis of the fair values of financial assets and liabilities (excluding derivatives) is disclosed on the basis that there is no material difference between the carrying value of these assets and liabilities and their fair value.

Unrecognised gains and losses

The company has an interest rate swap in place with Barclays Bank PLC with a notional principle value of £97,529,266 to cover any variance between one month LIBOR and the note rate LIBOR. The fair value of this swap as at 30 November 2005 was £33,075 in the company's favour (all unrecognised) (2004: £76,640). The company also has an interest rate cap which caps the company's liability to pay interest on the loan notes to a rate of 4% above the average base rate prevailing when the mortgage loans were originally written. This cap has a notional value of £90,000,000 and is valid until November 2009. The fair value of the cap as at 30 November 2005 was £56,433 in the company's favour (2004: £108,819). However, the company held the cap at a cost less amortised value of £136,823 (2004: £183,000). The directors consider that the unrecognised gains/losses on hedges will be recognised after more than one year.

Notes to the Financial Statements

15 Related party transactions

During the year the company has purchased loans from the Commercial First Group Limited totalling £37.7 million. It has also received a loan of £1.6 million in addition to the £7.3 million received in 2004 from the same group. During the year the company has paid £4.6 million (2004: nil) in interest and fees to the same group.

16 Ultimate parent company

The results of the company are consolidated within the financial statements of BMF Holdings Limited, a company incorporated in England. This company is both the immediate and ultimate parent undertaking. The financial statements of this company are available by application, from the Company Secretary, Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE.