

Business Mortgage Finance 2 PLC

Directors' Report and Financial Statements

Registered Number 5216563
Year Ended 30 November 2008



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Company Information

Directors

K Millward
O Pritchard
V Rapley

Company Secretary

Mourant & Co Capital Secretaries Ltd

Registered Office

8th Floor
68 King William Street
London
EC4N 7DZ

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
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 2008.

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

The Company continues to hold a mortgage portfolio as part of the Commercial First programme of securitisations.

Risk management and control

The Company seeks to manage the risks that arise from its activities. The risk framework in which the Company operates was documented in the Offering Circular together with an assessment of how the Company would mitigate the risks through the use of financial derivatives.

The principal risk left within the business is liquidity risk, which is the risk that the Company will not have sufficient liquid funds to meet its liabilities as they fall due. The directors are confident that the underlying assets of the Company will continue to generate positive cashflows sufficient to meet all its future liabilities. Furthermore the liquidity risk has been mitigated with cash reserves and liquidity facilities with external parties.

Key performance indicators

The Company's sole purpose was to provide funding for a portfolio of mortgages. The portfolio is closed and is now in run off.

The directors consider that there are no key performance indicators that govern the management of the Company as the activity of the Company is controlled primarily by the conditions set out in the Offering Circular when the bonds were issued. Copies of the Offering Circular document can be obtained by written request from the address in note 17.

Results and Dividend

The loss for the financial period amounted to £90,000 (2007: profit £8,801). The directors do not recommend the payment of a dividend.

Future Developments

The Company will continue to meet the scheduled repayment dates for the loan notes during 2009 using cash generated from the mortgage portfolio which pays the intercompany loans.

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.

Operational Risk

The Company outsources part of its administration activities to an unconnected third party. The risk associated with this arrangement is controlled by a Service Level Agreement, performance against which is monitored on a regular basis.

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.

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 auditors are 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 auditors are aware of that information.

By order of the board



K Millward
Director
23 February 2009

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records 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 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

Independent auditors' report to the member of Business Mortgage Finance 2 PLC.

We have audited the financial statements of Business Mortgage Finance 2 PLC for the year ended 30 November 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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

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

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

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

Basis of audit opinion

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

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

Independent auditors' report to the member of Business Mortgage Finance 2 PLC.
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

23 February 2009

Profit and Loss Account

For the year ended 30 November 2008

	<i>Note</i>	2008 £000	2007 £000
Interest receivable and similar income	2	5,853	8,520
Interest payable and similar charges	3	(5,713)	(8,369)
Fair value movement in derivative financial instruments	4	(120)	(1)
Net interest income		20	150
Operating expenses		(145)	(140)
Operating (loss) / profit on ordinary activities before taxation	5	(125)	10
Tax on loss / (profit) on ordinary activities	6	35	(1)
Retained (loss) / profit for the year		(90)	9

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

The results for the year to 30 November 2008 all arise from continuing operations.

The notes on pages 10 to 20 form part of these financial statements.

Balance Sheet
At 30 November 2008

	<i>Note</i>	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Loan to Originator	8		32,008		49,311
Current assets					
Debtors					
Derivative financial asset	9	1		3	
Other Debtors	9	166		526	
Cash at bank and in hand		10,039		10,975	
			10,206		11,504
			42,214		60,815
Capital and reserves					
Called up share capital	10	13		13	
Profit and loss account	11	(84)		6	
Shareholders' funds			(71)		19
Creditors: amounts falling due within one year	12		86		416
Creditors: amounts falling due after one year					
Derivative liability	13		144		27
Mortgage backed loan notes	13		42,055		60,353
			42,214		60,815

The notes on pages 10 to 20 form part of these financial statements.

These financial statements were approved by the board of directors on 23 February 2009 and were signed on its behalf by:



K Millward
Director

Notes to the Financial Statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules except derivative financial instruments which are carried at their fair value.

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.

Going concern

The directors are confident that the underlying assets of the Company will continue to generate positive cashflows sufficient to meet all its future liabilities. Furthermore the liquidity risk has been mitigated with cash reserves and liquidity facilities with external parties.

The directors are therefore of the opinion that the Company remains a going concern and the accounts have been prepared on this basis.

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.

Interest income and expense

For all financial instruments measured at amortised cost (including loans to the Originator and Floating Rate Notes) interest income and expense are recognised in the Profit and loss account on an Effective Interest Rate ("EIR") basis.

Classification of financial instruments

In accordance with FRS 26 each financial asset is classified at initial recognition into one of four categories:

- i. Financial assets at fair value through profit and loss;
- ii. Held to maturity investments;
- iii. Loans and receivables; or
- iv. Available for sale;

And each financial liability into one of two categories:

- v. At amortised cost; or
- vi. At fair value through profit or loss.

Measurement of financial instruments is either amortised cost (categories ii, iii, and v above) or at fair value (categories i, iv, and vi above), depending on the category of financial instrument.

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method; amortisation is taken to the interest income or expense depending upon whether the instrument is an asset or liability. The amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectable.

Any profit or loss on sale of an instrument carried at amortised cost is recognised immediately in the Profit and loss account in interest income or expense depending on whether the instrument is an asset or a liability.

Notes to the Financial Statements

1 Accounting policies (continued)

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Where a market exists, fair values are based on quoted market prices. For instruments which do not have active markets, fair value is calculated using present value models which take individual cash flows together with assumptions based on market conditions and credit spreads and are consistent with accepted economic methodologies for pricing financial instruments. Any net movements in fair values that occur will be included in the Profit and loss account as "fair value movements on financial instruments".

Floating Rate Notes

On initial recognition, debt issued is measured at its fair value net of directly attributable transaction costs and discounts, in accordance with FRS 26. Subsequent measurement is at amortised cost using the EIR method to amortise incremental attributable issue and transaction costs, premia and discounts over the life of the instrument; these costs are charged along with interest on the debt to "interest expense and similar charges". Unamortised amounts are added to or deducted from the carrying value of the instrument.

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.

Derivatives

All derivatives are carried at fair value in the Balance Sheet in accordance with FRS 26, as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of the derivatives are charged immediately to the Profit and loss account as "fair value movements on financial instruments".

2 Interest income and similar fees

	2008 £000	2007 £000
On loan to Originator	5,211	7,742
Bank interest	642	778
	<hr/>	<hr/>
	5,853	8,520
	<hr/>	<hr/>

Notes to the Financial Statements

3 Interest payable and similar charges

	2008 £000	2007 £000
On loans repayable after five years:		
Mortgage backed loan notes	4,429	7,289
Interest on subordinated loan	926	696
Amortisation of start up costs	358	384
	<u>5,713</u>	<u>8,369</u>

4 Movement of market value of Derivative Financial Instruments

	2008 £000	2007 £000
Fair value movement on financial instruments	<u>120</u>	<u>1</u>

Notes to the Financial Statements

5 Profit on ordinary activities before taxation

	2008 £000	2007 £000
<i>(Loss) / profit on ordinary activities before taxation is stated after charging:</i>		
Auditor's remuneration – Statutory audit	3	3

6 Taxation

Analysis of charge in period		
	2008 £000	2007 £000
<i>UK corporation tax</i>		
Current tax on income for the period	-	3
Deferred tax	(35)	(2)
	<hr/>	<hr/>
Tax on (loss) / profit on ordinary activities	(35)	1
	<hr/>	<hr/>

Factors affecting the tax charge/credit for the current period

	2008 £000	2007 £000
<i>Current tax reconciliation</i>		
(Loss) / Profit on ordinary activities before tax	(125)	10
	<hr/>	<hr/>
Current tax at 28% / 30 %	(35)	3
Other timing differences	35	-
	<hr/>	<hr/>
Total current tax charge (see above)	-	3
	<hr/>	<hr/>

Notes to the Financial Statements

7 Deferred Taxation

The elements of deferred taxation are as follows:

	2008 £000	2007 £000
Deferred tax opening balance	6	4
Movement in the year	35	2
Deferred tax closing balance	41	6

8 Loan to Originator

The Company purchased a portfolio of mortgages from Commercial First DAC Limited; however, as the principle risk and rewards of these mortgages remain with Commercial First DAC Limited, these are not deemed for accounting purposes to have transferred to the Company. Accordingly, the Company accounts for the transaction as an intercompany loan to Commercial First DAC Limited.

The loan to Commercial First DAC Limited is denominated in sterling and bears interest at a variable rate. It is secured on the beneficial interest in a portfolio of commercial mortgage loans. The repayment of the loan is linked to the repayment of the Floating Rate Notes.

9 Debtors

	2008 £000	2007 £000
Derivative asset	1	3
Deferred tax asset	41	6
Other debtors	125	520
	167	529

10 Called up share capital

	2008 £	2007 £
<i>Authorised</i>		
50,000 Ordinary shares of £1.00 each	50,000	50,000
<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
	12,502	12,502

Notes to the Financial Statements

11 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	Total £000
At 1 December 2007	13	6	19
Loss for the year	-	(90)	(90)
At 30 November 2008	13	(84)	(71)

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Loan notes – accrued interest	81	183
Intercompany creditor	1	1
Other creditors	4	232
	86	416

Notes to the Financial Statements

13 Creditors: amounts falling due after one year

	2008 £000	2007 £000
Mortgage backed loan notes due 2037	42,055	60,353
Financial instrument derivative - Swap	144	27
	<u>42,199</u>	<u>60,380</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 Commercial First DAC Limited and are administered by a third party on behalf of the Company, although as noted previously, for accounting purposes, are not recognised on the Company's balance sheet.

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.

	Value at 30 November 2007	Redemption	Value at 30 November 2008	Up to 20 November 2011	After 20 November 2011
Class A	24,006,559	(18,701,993)	5,304,566	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%
Total	<u>60,756,559</u>	<u>(18,701,993)</u>	<u>42,054,566</u>		
Less unamortised costs	<u>(403,469)</u>		<u>-</u>		
	<u>60,353,090</u>		<u>42,054,566</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 £9,434,852 at 30 November 2008. It bears interest at LIBOR plus 4% and is subordinated to the loan notes.

14 Contingent liabilities

The Company has no contingent liabilities as at 30 November 2008. (2007: None)

Notes to the Financial Statements

15 Financial instruments

Fair Value disclosures

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

Nature and extent of risks arising from financial instruments

The main financial risks arising from the Company's activities are credit risk, liquidity risk, currency risk and interest rate risk. Financial instruments used by the Company for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principle derivative instruments used by the Company in managing its risks are interest rate swaps. The maturity of the derivatives is set to match the cashflows and risks on the underlying instruments. All of the derivatives are placed with external triple A rated providers.

Credit Risk

Credit risk is the risk that the counterparty of the Company will not be able to meet its obligations as they fall due. The Company is exposed to credit risk via amounts due from the loan from the Originator, derivative counterparties and deposits held by banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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 assets with those of the cash payments due on the Floating Rate Notes.

Foreign Currency Risk

Foreign currency risk exists where assets and liabilities are denominated in different currencies. The Company, as part of the securitisation programme have issued Euro denominated Floating Rate Notes during the year. The Company's policy is to manage foreign currency risk by entering into currency swaps that match all future liabilities in foreign currencies that hedge against any movement in exchange rates.

Notes to the Financial Statements

15 Financial instruments (Continued)

Interest rate risk

The table below summarises the interest rate profile of the Company's financial instruments. The analysis excludes short term 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.

2008

	Effective interest rate%	Floating £000	Non interest bearing £000	Total £000
Financial assets:				
Loan to Originator	14.4	32,008	-	32,008
Derivative financial asset		-	1	1
Cash at bank and in hand	5.36	10,039	-	10,039
		42,047	1	42,048
Gross financial assets				
Financial liabilities:				
Mortgage backed loan notes due 2037	7.84	42,055	-	42,055
Derivative financial liabilities		-	144	144
		42,055	144	42,199
Gross financial liabilities				

2007

	Effective interest rate%	Floating £000	Non interest bearing £000	Total £000
Financial assets:				
Loan to Originator	13.18%	49,311	-	49,311
Cash at bank and in hand	5.34%	10,975	-	10,975
Derivative asset		-	3	3
		60,286	3	60,289
Gross financial assets				
Financial liabilities:				
Mortgage backed loan notes due 2037	8.01%	60,756	(403)	60,353
Derivative financial liabilities		-	27	27
		60,756	(376)	60,380
Gross financial liabilities				

15 Financial instruments (Continued)

Maturity profile

The table below summarises the maturity profile of the Company's financial instruments based on the contractual terms of the financial assets and liabilities. The actual maturity profile will depend on the cashflows from the underlying mortgages, which are likely to repay earlier than their contractual maturity.

2008

	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	5+ years £000
Financial assets:					
Loan to Originator	-	-	-	-	32,008
Derivative financial asset	-	-	-	-	1
Cash at bank and in hand	10,039	-	-	-	-
	10,039	-	-	-	32,009
Gross financial assets					
Financial liabilities:					
Mortgage backed loan notes due 2037	-	-	-	-	42,055
Derivative financial liabilities	-	-	-	-	144
	-	-	-	-	42,199
Gross financial liabilities					

2007

	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	5+ years £000
Financial assets:					
Loan to Originator	-	-	-	-	49,311
Cash at bank and in hand	10,975	-	-	-	-
Derivative asset	-	-	-	-	3
	10,975	-	-	-	49,314
Gross financial assets					
Financial liabilities:					
Mortgage backed loan notes due 2037	-	-	-	-	60,353
Derivative financial liabilities	-	-	-	-	27
	-	-	-	-	60,380
Gross financial liabilities					

Concentration of risk

The Company operates entirely within the United Kingdom and adverse changes to the UK economy could impact on all areas of the Company's business. The loan to the Originator is due to one entity Commercial First DAC Limited, and is secured on a beneficial interest in a portfolio of mortgage loans secured on commercial property in England, Scotland, and Wales.

Notes to the Financial Statements

16 Related party transactions

The Company is a special purpose vehicle controlled by the directors. There are three directors, two of which are provided by Mourant International Financial Services Limited. The Company has paid a fee of £5,916 to Mourant International Services Limited for the provision of the two directors. The third director is an employee of Commercial First Mortgages Limited - the special service provider.

At the period end the Company had the following balance with the Commercial First Group of companies.

	2008	2007
	£000	£000
Non- current assets		
Loan to Originator	32,008	49,311

17 Ultimate parent company

The share capital of the Company is held by BMF Holdings Limited; however the results are consolidated in the financial statements of Commercial First Group Limited as the directors consider this to be the controlling entity. Commercial First Group Limited is a company incorporated in England. 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.