

Business Mortgage Finance 2 PLC

Annual Report and Financial Statements

Registered Number 05216563

Year Ended 30 November 2013



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Company Information

Directors

J Bingham

A Nehra

M Schnaier

Company Secretary

Sanne Group Secretaries (UK) Limited

Registered Office

Sanne Group Secretaries (UK) Limited

10 Cork Street

London

W1S 3NP

Trading Address

The Vineries

Broughton Hall Business Park

Skipton

North Yorkshire

BD23 3AE

Solicitors

Clifford Chance

10 Upper Bank Street

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E14 5JJ

Auditor

KPMG Audit Plc

1 The Embankment

Neville Street

Leeds

LS1 4DW

Bankers

Barclays Bank PLC

One Churchill Place

London

E14 5HP

Strategic Report

Principal Activities

The sole purpose of the Company was to issue mortgage backed securities to the market which were collateralised by commercial mortgage loans. The capital raised was used to fund the activities of the Commercial First Group of companies. The portfolio is now closed and the Company will continue to hold the portfolio until it is repaid.

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. (Copies of the Offering Circular document can be obtained by written request from the address in note 19).

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.

On 5 January 2012 the Company drew down £6 million from the liquidity facility following a downgrade in the liquidity provider's ratings.

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.

Financial Instruments

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

The Company has also entered into a derivative transaction; 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. 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.

Strategic Report *(continued)*

Interest Rate Risk (continued)

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.

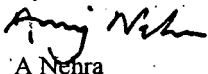
Liquidity Risk

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 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.

By order of the board



A Nehra
Director

Date: 27 May 2014

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 30 November 2013.

Results and Dividend

The loss for the financial year amounted to £36,000 (2012: £33,000 loss) the directors do not recommend the payment of a dividend (2012: nil).

Directors

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

	Date of Appointment	Date of Resignation
J Bingham	01/06/2013	
A Iqbal		01/06/2013
A Nehra		
M Schnaier	01/06/2013	
N Scott		01/06/2013

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 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.

Auditor

Our auditors, KPMG Audit Plc have instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditors and resolution concerning their appointment will be put to the forthcoming AGM of the company.

By order of the board



A Nehra
Director

Date: 27 May 2014

Statement of Directors' Responsibilities in respect of the Strategic Report and the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report and 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).

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Members of Business Mortgage Finance 2 PLC

We have audited the financial statements of Business Mortgage Finance 2 PLC for the year ended 30 November 2013 set out on pages 9 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor.

As explained more fully in the Directors' Responsibilities Statement set out on page 6 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 30 November 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Report of the Independent Auditor to the Members of Business Mortgage Finance 2 PLC (*continued*).

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:

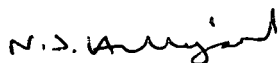
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law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

Emphasis of matter: going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the basis of the preparation section in note 1 to the financial statements concerning the Company's ability to continue as a going concern.

At 30 November 2013 the Company's total liabilities exceeded its total assets by £36,000. The payment of interest and principal on finance issued by the Company is dependent on the performance of its pool of mortgages. Conditions in the UK commercial mortgage market remained challenging during 2013. If conditions continue to deteriorate and an event of default occurs which the security trustee believes is materially prejudicial to the note holders then the security trustee may, at its discretion, choose to issue and enforcement notice to the Company.

These conditions, along with other matters set out in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.



.....
James Hillyard (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

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

Date: 27 May 2014

Profit and Loss Account
For the year ended 30 November 2013

	<i>Note</i>	2013 £000	2012 £000
Interest receivable and similar income	2	1,407	1,679
Interest payable and similar charges	3	(1,329)	(1,546)
Net interest income		78	133
Fair value movement in derivative financial instruments	4	(45)	(45)
Operating expenses		(76)	(131)
Loss on ordinary activities before taxation	5	(43)	(43)
Tax on loss on ordinary activities	6	7	10
Loss for the financial year	11	(36)	(33)

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 all arise from continuing operations.

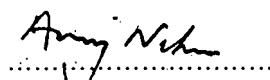
The notes on pages 12 to 25 form part of these financial statements.

Balance Sheet
At 30 November 2013

	<i>Note</i>	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Securitised assets	8		14,594		18,053
Current assets					
Debtors	9	19		11	
Cash at bank and in hand		13,848		14,540	
			13,867		14,551
Total assets			28,461		32,604
Capital and reserves					
Called up share capital	10	13		13	
Profit and loss account	11	(49)		(13)	
Shareholders' (deficits) / funds			(36)		-
Creditors: amounts falling due within one year	12		96		125
Creditors: amounts falling due after one year	13		28,401		32,479
Total equity and liabilities			28,461		32,604

The notes on pages 12 to 25 form part of these financial statements.

These financial statements were approved by the board of directors on 27 May 2014 and were signed on its behalf by:


A Nehra
Director

Company Number: 05216563

Cash Flow Statement
for the year to 30 November 2013

	<i>Note</i>	2013	2012
		£000	£000
Net Cash (outflow)/inflow from operating activities	<i>17</i>	(692)	5,466
(Decrease) / increase in cash in the year		(692)	5,466

The notes on pages 12 to 25 form part of these financial statements.

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

As set out in the Offering Circular, the Company is governed by strict terms setting out the amount and timing of any payments that the Company is obliged to make. Such payments are only required to be made if the Company has sufficient funds to make the payments. As a result the Company should always be able to meet its obligations as they fall due. On this basis, the Directors consider it appropriate to prepare the accounts on a going concern basis.

In common with all securitisation transactions where the call date has passed there is a possibility that the call option could be exercised at any future quarter date. Should the call option be exercised the assets of the company would be sold and the liabilities settled in accordance with the terms of the Offering Circular and the Company wound up shortly thereafter. These financial statements have been prepared on a going concern basis as no exercise of the call option has been notified. The directors believe there would be no material difference in the valuation of the assets and liabilities should the call option be exercised.

Interest income and expense

For all financial instruments measured at amortised cost (including Securitised assets 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 *(continued)*

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 in derivative 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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 in derivative financial instruments".

2 Interest receivable and similar income

	2013 £000	2012 £000
On Securitised assets	1,393	1,609
Bank interest	14	70
	<hr/>	<hr/>
	1,407	1,679
	<hr/>	<hr/>

Notes to the Financial Statements *(continued)*

3 Interest payable and similar charges

	2013 £000	2012 £000
On loans repayable after five years:		
Mortgage backed loan notes	893	1,095
Interest on subordinated loan	436	451
	<u>1,329</u>	<u>1,546</u>

4 Fair value movement in derivative financial instruments

	2013 £000	2012 £000
Fair value movement in financial instruments-interest rate swap	(45)	(45)
	<u>(45)</u>	<u>(45)</u>

5 Loss on ordinary activities before taxation

	2013 £000	2012 £000
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditor's remuneration – Statutory audit	3	3
	<u>3</u>	<u>3</u>

Notes to the Financial Statements *(continued)*

6 Taxation

	2013 £000	2012 £000
Analysis of tax charge in year		
<i>UK corporation tax</i>		
Corporation tax payable	1	1
	<hr/>	<hr/>
Total current tax	1	1
	<hr/>	<hr/>
<i>Deferred tax</i>		
Movement on deferred tax	(8)	(11)
	<hr/>	<hr/>
Total deferred tax	(8)	(11)
	<hr/>	<hr/>
Tax credit on loss on ordinary activities	(7)	(10)
	<hr/>	<hr/>

Factors affecting taxation for the current year are as follows:

	2013 £000	2012 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(43)	(43)
	<hr/>	<hr/>
Current tax at 23.33% (2012: 24.66%)	(10)	(11)
Short term timing differences	11	12
	<hr/>	<hr/>
Total current tax charge (see above)	1	1
	<hr/>	<hr/>

A reduction in the UK corporation tax rate to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Further reduction to 21% (effective 1 April 2014) and 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

Notes to the Financial Statements (*continued*)

7 Deferred Taxation

The elements of deferred taxation are as follows:

	2013 £000	2012 £000
Deferred Tax Asset		
Deferred tax opening balance	10	-
Movement in the year due to short term timing differences on derivatives	8	10
	<hr/>	<hr/>
Deferred tax closing balance	18	10
	<hr/>	<hr/>

8 Securitised Assets

The Company purchased a portfolio of mortgages in 2004 from Commercial First DAC Limited; however, as the principal risk and rewards of these mortgages were retained by 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, reported as a 'Loan to Originator'.

In November 2013, Britannica II Sarl acquired the economic interest in the residual risks and rewards of these mortgages from Commercial First DAC Limited and following this transaction the directors are now of the view that they are more appropriately reported as 'Securitised assets'. There was no other impact on the Company arising from the November 2013 transaction.

The Securitised asset 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.

9 Debtors

	2013 £000	2012 £000
Deferred tax asset (note 7)	18	10
Other debtors	1	1
	<hr/>	<hr/>
	19	11
	<hr/>	<hr/>

10 Called up share capital

	2013 £	2012 £
<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/>

Notes to the Financial Statements *(continued)*

11 Reconciliation of movements in shareholders' funds / (deficits)

	Share capital £000	Profit and loss account £000	Total £000
At 1 December 2012	13	(13)	-
Retained loss for the year	-	(36)	(36)
	<hr/>	<hr/>	<hr/>
At 30 November 2013	13	(49)	(36)
	<hr/>	<hr/>	<hr/>

12 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Loan notes – accrued interest	93	37
Accruals and deferred income	-	57
Group relief payable	-	1
Corporation tax payable	1	-
Other creditors	2	30
	<hr/>	<hr/>
	96	125
	<hr/>	<hr/>

Notes to the Financial Statements *(continued)*

13 Creditors: amounts falling due after one year

	2013 £000	2012 £000
Mortgage backed loan notes due 2037	23,592	27,028
Liquidity facility	4,719	5,406
Financial instrument derivative – interest rate swap	90	45
	<u>28,401</u>	<u>32,479</u>

All amounts falling due after more than one year fall due after more than five years, other than deferred consideration (included as part of the return on the Securitised Assets), the payment of which is uncertain, but is likely 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 01 December 2012	Redemption	Value at 30 November 2013	Up to 15 November 2011	After 15 November 2011
	£	£	£	£	£
Class A	-	-	-	LIBOR + 0.29%	LIBOR + 0.58%
Class M	16,928,407	(3,436,319)	13,492,088	LIBOR + 0.90%	LIBOR + 1.80%
Class B	10,100,000	-	10,100,000	LIBOR + 2.80%	LIBOR + 3.80%
Total	<u>27,028,407</u>	<u>(3,436,319)</u>	<u>23,592,088</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 £9,699,512 at 30 November 2013 (2012 - £9,386,256). It bears interest at LIBOR plus 4% and is subordinated to the loan notes.

Notes to the Financial Statements (continued)

14 Contingent liabilities

The Company has no contingent liabilities as at 30 November 2013 (2012: nil).

15 Financial instruments

Fair Value disclosures

Categories of financial assets and financial liabilities: carrying value compared with fair value

2013

	Assets at fair value through profit or loss – on initial recognition	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000	£000
Financial assets:					
Securitised assets	-	14,594	14,594	14,594	145
Cash at bank and in hand	-	13,848	13,848	13,848	14
Total financial assets	-	28,442	28,442	28,442	159
Financial liabilities:					
Liquidity facility	-	4,719	4,719	4,719	47
Mortgage backed loan notes due 2037	-	23,592	23,592	23,592	236
Derivative financial liability	90	-	90	90	1
Total financial liabilities	90	28,311	28,401	28,401	284

2012

	Assets at fair value through profit or loss – on initial recognition	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000	£000
Financial assets:					
Securitised assets	-	18,053	18,053	18,053	180
Cash at bank and in hand	-	14,540	14,540	14,540	15
Total financial assets	-	32,593	32,593	32,593	195
Financial liabilities:					
Liquidity facility	-	5,406	5,406	5,406	54
Mortgage backed loan notes due 2037	-	27,028	27,028	27,028	270
Derivative financial liability	45	-	45	45	1
Total financial liabilities	45	32,434	32,479	32,479	325

No financial assets were reclassified during the year between amortised cost and fair value categories.

The fair value of Securitised Assets has been estimated to be the same as the book value as the underlying assets are linked to variable bank rates.

The fair value of the Mortgage backed loan notes has been estimated to be book value as these are callable and are supported by substantial Reserve Funds.

The fair value of the financial derivatives is their carrying value.

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Fair Value disclosures (continued)

Financial assets and liabilities recognised at fair value are disclosed based on fair value hierarchy as follows:

Level 1- Quoted prices (unadjusted) in active markets for identical instruments.

Level 2- Direct comparison with observable market transactions (other than those included in level 1) or indirectly based on valuation techniques using observable market data.

Level 3- Inputs for the asset or liability not based on observable market data.

Financial assets and liabilities carried at fair value are valued on the following basis:

2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets:				
Derivative financial asset	-	-	-	-
Gross financial assets	-	-	-	-
Financial liabilities:				
Derivative financial liabilities	-	90	-	90
Gross financial liabilities	-	90	-	90
2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets:				
Derivative financial asset	-	-	-	-
Gross financial assets	-	-	-	-
Financial liabilities:				
Derivative financial liabilities	-	45	-	45
Gross financial liabilities	-	45	-	45

Nature and extent of risks arising from financial instruments

The main financial risks arising from the financial instruments 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 were placed with external 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 Securitised assets, 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.

Notes to the Financial Statements *(continued)*

15 Financial instruments *(continued)*

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.

There is a liquidity facility provided by Barclays Bank PLC in the event that the Company is unable to meet certain financial commitments which in certain circumstances can be utilised.

The repayment of the Mortgage backed loan notes is reliant upon the repayment profile of the underlying mortgages, the directors estimate of the undiscounted cash flows associated with financial liabilities will be as follows

2013

	On demand	In not more than three months	In more than three months but not more than one year	In more than one year but not more than five years	Total
	£000	£000	£000	£000	£000
At 30 November 2013 Mortgage backed loan notes due 2037	-	1,197	3,593	19,164	23,954
Total	-	1,197	3,593	19,164	23,954

2012

	On demand	In not more than three months	In more than three months but not more than one year	In more than one year but not more than five years	Total
	£000	£000	£000	£000	£000
At 30 November 2012 Mortgage backed loan notes due 2037	-	496	1,488	11,286	13,270
Total	-	496	1,488	11,286	13,270

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Risk Sensitivity

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. To minimise exposure to interest rate risk the Company ensures that the interest rate profiles of the loans to the group undertakings and of the interest bearing loans and borrowings are similar. Where this is not possible derivative financial instruments are also used to reduce any residual interest rate risk. If LIBOR for three months sterling deposits were 1% higher or lower, with all other variables held constant, the effect on the Company's net interest income would be immaterial due to movements on interest on the loan to group undertakings being offset by movements on interest on the loan notes.

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.

2013

	Floating £000	Non interest bearing £000	Total £000
Financial assets:			
Securitised assets	14,594	-	14,594
Cash at bank and in hand	13,848	-	13,848
Derivative financial asset	-	-	-
Gross financial assets	28,442	-	28,442
Financial liabilities:			
Liquidity facility	4,719	-	4,719
Mortgage backed loan notes due 2037	23,592	-	23,592
Derivative financial liabilities	-	90	90
Gross financial liabilities	28,311	90	28,401

2012

	Floating £000	Non interest bearing £000	Total £000
Financial assets:			
Securitised assets	18,053	-	18,053
Cash at bank and in hand	14,540	-	14,540
Derivative financial asset	-	-	-
Gross financial assets	32,593	-	32,593
Financial liabilities:			
Liquidity facility	5,406	-	5,406
Mortgage backed loan notes due 2037	27,028	-	27,028
Derivative financial liabilities	-	45	45
Gross financial liabilities	32,434	45	32,479

Notes to the Financial Statements (continued)

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 cash flows from the underlying mortgages, which are likely to repay earlier than their contractual maturity.

2013

	< 1 year	1-2 years	2-3 years	3-4 years	5+ years
	£000	£000	£000	£000	£000
Financial assets:					
Securitised assets	-	-	-	-	14,594
Cash at bank and in hand	13,848	-	-	-	-
Derivative financial asset	-	-	-	-	-
Gross financial assets	13,848	-	-	-	14,594
Financial liabilities:					
Liquidity facility	-	-	-	-	4,719
Mortgage backed loan notes due 2037	-	-	-	-	23,592
Derivative financial liabilities	-	-	-	-	90
Gross financial liabilities	-	-	-	-	28,401

2012

	< 1 year	1-2 years	2-3 years	3-4 years	5+ years
	£000	£000	£000	£000	£000
Financial assets:					
Securitised assets	-	-	-	-	18,053
Cash at bank and in hand	14,540	-	-	-	-
Derivative financial asset	-	-	-	-	-
Gross financial assets	14,540	-	-	-	18,053
Financial liabilities:					
Liquidity facility	-	-	-	-	5,406
Mortgage backed loan notes due 2037	-	-	-	-	27,028
Derivative financial liabilities	-	-	-	-	45
Gross financial liabilities	-	-	-	-	32,479

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 securitised assets are a portfolio of mortgage loans secured on commercial property in England, Scotland, and Wales.

Notes to the Financial Statements *(continued)*

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 Sanne Group Secretaries (UK) Limited. The Company has paid a fee of £3,600 (2012:£4,840) to Sanne Group Secretaries (UK) Limited for the provision of the two directors. The third director is provided by Commercial First Mortgages Limited- the special service provider.

The Company undertook the following transactions with companies in the Commercial First Group Limited and BMF Holdings Limited group.

Interest Receivable and similar income

	2013 £000	2012 £000
Interest on Securitised Assets	1,393	1,609

Interest Payable and similar charges

	2013 £000	2012 £000
Interest on subordinated loan	436	451

17 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2013 £000	2012 £000
Operating loss	(43)	(43)
Movement in other debtors	-	1
Movement in other creditors	(86)	(9)
Movement in accrued interest on loan notes and liquidity facility	56	(6)
Movement in derivative financial instruments	45	45
Cash flows from operating activities before changes in operating assets and liabilities	(28)	(12)
Movement in securitised assets	3,459	2,999
Movement in liquidity facility	(687)	5,406
Movement in loan notes	(3,436)	(2,927)
Net cash (outflow)/inflow from operating activities	(692)	5,466

18 Analysis of the balances of cash as shown in the balance sheet

	At beginning of year £000	Cash flow £000	At end of year £000
Cash at bank and in hand	14,540	(692)	13,848
Total	14,540	(692)	13,848

19 Ultimate parent company

The share capital of the Company is held by BMF Holdings Limited.. The financial statements of this company are available by application, from the Finance Director, The Vineries, Broughton Hall Business Park, Skipton, North Yorkshire BD23 3AE.