# RESIDENTIAL MORTGAGE SECURITIES 19 PLC

**Report and Financial Statements**

**31 March 2014**

Company Registration No. 05227228

## CONTENTS

Company Registration No. 05227228

## OFFICERS AND PROFESSIONAL ADVISERS

**Directors**
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited
S Martin - resigned 22 May 2014 and re-appointed 11 July 2014
P Glendenning - appointed 12 June 2014 and resigned 11 July 2014

**Secretary**
Capita Trust Secretaries Limited - resigned 17 January 2014
Capita Trust Corporate Limited - appointed 17 January 2014

**Auditors**
Ernst & Young LLP
1 More London Place
London
SE1 2AF

**Bankers**
Barclays Bank PLC
1 Churchill Place
London
E14 5HP

**Solicitors**
Linklaters LLP
1 Silk Street
London
EC2Y 8HQ

**Registered office**
4th Floor
40 Dukes Place
London
EC3A 7NH

## STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 March 2014.

**Principal activities**

Residential Mortgage Securities 19 Plc (the "Company") is a special purpose vehicle which acts as issuer in a residential mortgage backed securitisation transaction. The principal activity of the Company is the investment in mortgage loans secured by first charges over properties within the United Kingdom. This is achieved by the Company purchasing portfolios of mortgage loans from Norland DACS 19 Limited, a wholly owned subsidiary of Kensington Group Plc (the "Kensington Group"). However, as the significant economic risks and rewards associated with these mortgage loans remain with Norland DACS 19 Limited, these loans are not deemed to have been transferred to the Company for accounting purposes. Accordingly, the Company accounts for the transaction as a loan to Norland DACS 19 Limited, as originator. The loan to Norland DACS 19 Limited is secured on the beneficial interest in a portfolio of residential mortgage loans and related assets, such as cash and derivatives, of Norland DACS 19 Limited.

The purchase of the portfolios of mortgage loans was financed by the issuance of a series of mortgage backed floating rate notes ("Notes") secured on the mortgage portfolio. The Company pays interest and repays the principal due on the Notes from interest and principal payments received from the mortgage loans until all the Notes have been redeemed. Further, deferred consideration may be payable to Norland DACS 19 Limited dependent on the future performance of the mortgages.

There have been no significant changes to the Company's principal activities during the year under review and, as at the date of this report, the Directors are not aware of any major changes in the Company's activities in the coming year.

The Company is de facto controlled by the Group through a series of investments in the Company made by subsidiary companies of the Group. The Group is a wholly owned subsidiary of Investec plc (the "ultimate parent company").

**Review of the business**

The Profit and Loss Account for the year ended 31 March 2014 is set out on page 11. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory.

At the year end, the gross mortgage balance underlying the loan to originator was £56,148,000 (2013: £65,145,000). The estimated weighted average life of the mortgage assets underlying the loan to originator is 6.8 years (2013: 6.8 years).

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Current balance £'000 | Number of loans | Current balance £'000 | Number of loans |
| As at 31 March | | | | |
| First charge mortgages | 56,148 | 584 | 65,145 | 647 |
| Total | 56,148 | 584 | 65,145 | 647 |

After considering property values, anticipated bad debts and future income streams associated with the mortgages, over and above the principal figure shown above, the Directors consider the mortgages together with other related assets of the Company such as cash and derivatives to be adequate collateral against the loan notes in issue. The weighted average funding costs are 1.21% (2013: 0.52%) above LIBOR and the weighted average spread above LIBOR on mortgage loans is 5.27% (2013: 5.34%).

**STRATEGIC REPORT (continued)**

**Review of the business (continued)**
The mortgage loans exhibited the following quarterly arrears profile:

| Delinquencies days | Mar-13 % | Jun-13 % | Sep-13 % | Dec-13 % | Mar-14 % | Repossessed Mortgage Book % |
|---|---|---|---|---|---|---|
| Current | 56 | 58 | 58 | 60 | 59 | 0 |
| >30<=60 | 7 | 7 | 10 | 9 | 11 | 0 |
| >60<=90 | 6 | 5 | 5 | 5 | 7 | 0 |
| >90<=120 | 4 | 5 | 5 | 4 | 3 | 0 |
| >120 | 27 | 25 | 22 | 22 | 20 | 1 |
| Total | 100 | 100 | 100 | 100 | 100 | 1 |

The level of arrears in the underlying mortgage portfolio has largely stabilised, which the Directors consider consistent with the gradual easing in the severe market conditions experienced in the past few years in the UK mortgage market. This matter is further discussed in the Principal Risks and Uncertainties section below.

Interest accrued for the year in relation to impaired financial assets is 1.46% (2013: 1.03%) of the principal balance.

A monthly accrual is made in the Profit and Loss Account for deferred consideration that will ultimately become payable to Norland DACS 19 Limited under the original terms of the loan purchase agreement. Under the terms of the waterfall of payments any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Cash flow projections have been performed to determine the extent to which deferred consideration will be payable. Based on these projections, the Directors have determined that the full £19,770,000 (2013: £20,878,000) as recorded in Note 11 was payable as at 31 March 2014.

**Principal risks and uncertainties**
Risks specific to the Company's activities are associated with its financial instruments. The financial instruments held by the Company comprise a loan to originator, which is collateralised with the beneficial interest in a portfolio of residential mortgage loans, borrowings, cash and various other items (such as trade debtors, trade creditors, etc) that arise directly from its operations.

The Company also enters into derivative transactions where necessary (principally interest rate and currency swaps) to manage its interest rate risk and currency risk.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, foreign exchange risk and liquidity risk.

The Directors review and agree policies for managing each of these risks.

*Credit risk*
Credit risk is the risk that borrowers of the mortgages underlying the loan to the originator will not be able to meet their obligations as they fall due. All mortgages purchased by the Company were required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage loans. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the Directors.

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**STRATEGIC REPORT (continued)**

**Principal risk and uncertainties (continued)**

The level of arrears in the underlying mortgage portfolio has largely stabilised, which the Directors consider consistent with the gradual easing in the severe market conditions experienced in the past few years in the UK mortgage market. Low re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the Directors acknowledge that the easing of severe market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the Directors closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

*Interest rate risk*

Interest rate risk exists where assets and liabilities have interest rates set under different bases or interest rates 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, such as, basis rate swaps, to mitigate any residual interest rate risk.

*Foreign exchange risk*

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying Sterling mortgage loans. The Company minimises its exposure to foreign currency risk by ensuring that the currency 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 foreign exchange risk.

*Liquidity risk*

The Company's policy is to manage liquidity risk by matching cash payments due on the loan notes to cash receipts from mortgage assets. In addition the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances.

Approved by the Board of Directors on 24 /09 / 2014. Signed on behalf of the Board.

**Capita Trust Corporate Limited**
**Company Secretary**

Paula Celine Corrigan

Date 24 SEP 2014

**DIRECTORS' REPORT**

The Directors present their report and the audited financial statements for the year ended 31 March 2014.

**Directors**
The Directors who held office during the year and up to the date of signing of these financial statements, except as stated below, were as follows:

Capita Trust Corporate Services Limited
Capita Trust Corporate Limited
S Martin - resigned 22 May 2014 and re-appointed 11 July 2014
P Glendenning - appointed 12 June 2014 and resigned 11 July 2014

None of the above mentioned Directors are Directors of Investec plc, or had beneficial interests in the share capital of the Company.

**Company secretary**
Capita Trust Secretaries Limited acted as Company Secretary until 17 January 2014. Capita Trust Corporate Limited was appointed as Company Secretary on 17 January 2014.

**Dividend**
The Directors do not recommend the payment of a dividend (2013: £Nil).

**Future business developments**
Investec plc has agreed the sale of the Kensington Group to funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners on 9 September 2014. The sale is subject to regulatory approval which is expected in the next 6 months. The Company is included in the sale transaction.

The Directors expect the business will continue in its principal activities described above for the foreseeable future and will ensure that clients continue to be serviced on a business as usual basis.

The business is subject to a number of risks, described in the Principal Risks and Uncertainties section, which could adversely affect the business in future years and the Directors will continue to monitor and manage these risks.

**Going concern**
On the basis of current financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and as noted previously the Directors consider the mortgages and related assets of the Company to provide adequate collateral against the loan notes in issue. Funding for the Company is provided by loan notes, which are committed until 2038 (see Note 12). A call option exists over the Notes which may be exercised at the sole discretion of the Issuer (with the approval of the Trustee) once the outstanding loan notes reach 10% of the original issued amount. Although threshold conditions have now been met, the Directors do not anticipate winding up the Company within the next 12 months from the date of the approval of the financial statements. Accordingly, the going concern basis is adopted in the preparation of the financial statements.

**Fair value**
Note 16 (E) discloses the fair values of the Company's mortgage assets underlying the loan to originator and non-recourse mortgage backed loan notes. The fair value of the Notes has been based upon their quoted prices, where available, or prices interpolated using latest available market data where not. The fair value of the mortgage assets has been based upon the fair value of the associated securitised loan notes and expected residual cash flows.

**DIRECTORS' REPORT (continued)**

**Events occurring after balance sheet date**
Investec plc has agreed the sale of the Kensington Group to funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners on 9 September 2014. The sale is subject to regulatory approval which is expected in the next 6 months. The Company is included in the sale transaction. At this stage, the Directors consider that there is no material impact to the financial statements as at 31 March 2014 and for the year then ended.

The Directors confirm that there are no other significant events occurring after the balance sheet date, up to the date of this report that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2014 and for the year then ended.

**Directors' indemnity and Directors' and Officers' liability insurance**
Capita Trust Company Limited has made qualifying third party indemnity provisions for the benefit of S Martin, P Glendenning, Capita Trust Corporate Limited and Capita Trust Corporate Services Limited. These indemnity provisions remain in force at the date of this report.

**Policy and practice on payment of creditors**
The Company does not follow any stated code on payment practice. It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the suppliers at the outset. It is the policy of the Company to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year end (2013: Nil days).

**Corporate governance**
The Directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage, rather than eliminate the risk of failure to achieve business objectives, whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority disclosure and transparency rules 7.1 Audit committee and 7.2 Corporate governance statements (apart from 7.2.5). This would otherwise require the Company respectively, to have an Audit Committee in place, and to include a corporate governance statement, including all requirements of the disclosure and transparency rules, in the report of the Directors.

The Directors are therefore satisfied that there is no requirement for an Audit Committee, or a supervisory body entrusted to carry out the functions of an Audit Committee or to publish a corporate governance statement which includes all requirements of the disclosure and transparency rules.

**Corporate and social responsibilities**
The Company operates in accordance with the Group policies described in the Investec plc annual report which does not form part of this report.

**Employees**
The Company does not have any employees (2013: Nil). Administration of the mortgage loans is carried out by Homeloan Management Limited ("HML"), a subsidiary of Skipton Building Society, a third party. Investec Bank Plc acts as the cash bond administrator and its subsidiary, Kensington Mortgage Company Limited, is the special servicer with overall responsibility for oversight of HML.

**DIRECTORS' REPORT (continued)**

**Directors' statement as to the disclosure of information to the auditors**
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

**Appointment of auditors**
In accordance with section 489 of the Companies Act 2006, a resolution to re-appoint Ernst & Young LLP as auditors will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 24/09/2014. Signed on behalf of the Board.

**Capita Trust Corporate Limited**
Director

Paula Celine Corrigan

Date: 24 SEP 2014

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Strategic Report, 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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**INDEPENDENT AUDITORS' REPORT**
**TO THE MEMBER OF RESIDENTIAL MORTGAGE SECURITIES 19 PLC**

We have audited the financial statements of Residential Mortgage Securities 19 Plc for the year ended 31 March 2014 which comprise Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related Notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's member, 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 member those matters we are required to state to them in an auditors' 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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**
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 Report and Financial Statements 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 this 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 March 2014 and of its result 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.

**INDEPENDENT AUDITORS' REPORT**
**TO THE MEMBER OF RESIDENTIAL MORTGAGE SECURITIES 19 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 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.

Ernst & Young LLP

Andrew Bates (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date 25 SEP 2014

Company Registration No. 05227228

**PROFIT AND LOSS ACCOUNT**
**for the year ended 31 March 2014**

| | Notes | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 3,130 | 3,793 |
| Interest payable and similar charges | 3 | (981) | (1,283) |
| **Net interest receivable** | | 2,149 | 2,510 |
| Net fair value (loss) / gain on derivatives | 16 | (1,463) | 121 |
| Unrealised exchange gain on restatement of loan liabilities | | 1,452 | 122 |
| Other operating income | 4 | 41 | 1 |
| **Total operating income** | | 2,179 | 2,754 |
| Operating expenses | | (2,179) | (2,754) |
| ***Profit on ordinary activities before taxation*** | 5 | - | - |
| Tax on profit on ordinary activities | 6 | - | - |
| **Profit on ordinary activities after taxation** | 14,15 | - | - |

The transactions in the current year and in the prior year were derived from continuing operations.

There were no recognised gains or losses during the current year and in the prior year other than those passed through the Profit and Loss Account. Accordingly, no statement of recognised gains and losses has been prepared. A reconciliation of the movements in shareholder's funds is disclosed in Note 15 to the financial statements.

The notes on pages 14 to 28 form an integral part of these financial statements.

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**BALANCE SHEET**
**at 31 March 2014**

| | Notes | Year ended 31 March 2014 | Year ended 31 March 2013 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Current assets** | | | |
| Debtors: | | | |
| Amounts falling due after one year | 9 | 53,444 | 62,901 |
| Amounts falling due within one year | 10 | 1,974 | 1,436 |
| Derivative financial instruments | 16 | 5,238 | 6,702 |
| Cash at bank and in hand | | 26,489 | 28,361 |
| | | 87,145 | 99,400 |
| Creditors: amounts falling due within one year | 11 | (28,803) | (30,969) |
| **Net current assets** | | 58,342 | 68,431 |
| Creditors: amounts falling due after one year | 12 | (58,320) | (68,408) |
| Derivative financial instruments | 16 | (9) | (10) |
| **Net assets** | | 13 | 13 |
| **Capital and reserves** | | | |
| Called up share capital | 13 | 13 | 13 |
| Profit and loss account | 14 | - | - |
| **Shareholder's funds** | 15 | 13 | 13 |

The notes on pages 14 to 28 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 24/09/ 2014 and were signed on its behalf by:

Capita Trust Corporate Services Limited
Director
Date: 24 SEP 2014

Paula Celine Corrigan

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**CASH FLOW STATEMENT**
**for the year ended 31 March 2014**

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| **Profit on ordinary activities before taxation** | - | - |
| Deduct: items shown below within servicing of finance | | |
| Interest on mortgage backed loan notes and bank interest | 961 | 1,277 |
| Deduct: non-cash items | | |
| Crystallised losses and impairments to expected cash flows on mortgage assets underlying the loan to originator | 227 | 1,362 |
| Deferred consideration expense | 1,620 | 1,061 |
| Unrealised exchange gain on restatement of loan liabilities | (1,452) | (122) |
| Net fair value loss /(gain) on derivatives | 1,463 | (121) |
| EIR adjustment | 264 | 270 |
| | 3,083 | 3,727 |
| Plus: movement in working capital | | |
| (Increase) / Decrease in debtors | (53) | 446 |
| (Decrease) / Increase in creditors | (4) | 18 |
| | (57) | 464 |
| Deferred consideration paid | (2,728) | (1,617) |
| **Cash flow from operating activities** | 298 | 2,574 |
| Interest on mortgage backed loan notes and bank interest | (961) | (1,277) |
| **Cash flow from returns on investment and servicing of finance** | (961) | (1,277) |
| Principal paydowns on loan to originator | 8,481 | 7,889 |
| **Cash flow from investing activities** | 8,481 | 7,889 |
| Principal paydowns on mortgage backed loan notes | (8,636) | (8,621) |
| (Decrease)/Increase in collateral held | (1,054) | 2,257 |
| **Cash flow from financing activities** | (9,690) | (6,364) |
| (Decrease)/Increase in cash during the year | (1,872) | 2,822 |
| Cash at bank and in hand as at 31 March 2013 | 28,361 | 25,539 |
| **Cash at bank and in hand as at 31 March 2014** | 26,489 | 28,361 |

The notes on pages 14 to 28 form an integral part of these financial statements.

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## Notes to the financial statements
at 31 March 2014

### 1. ACCOUNTING POLICIES

**Basis of preparation**
The financial statements have been prepared in accordance with applicable United Kingdom law and Generally Accepted Accounting Practice and under the historical cost convention except for derivative financial instruments which are carried at their fair value. The financial statements have been prepared on a going concern basis.

**Loan to originator**
Under Financial Reporting Standard ("FRS") 26 – "Financial Instruments: Recognition and Measurement" (Revised), in accordance with the terms of the Mortgage Sale Agreement, derecognition of the mortgage assets from the financial statements of the originator is considered to be inappropriate because the originator has retained significant risks, in the form of credit enhancements paid into the Company, and rewards, in the form of deferred consideration, in relation to the mortgage assets. Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset for financial reporting purposes, as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. The Company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised non-recourse loan to the originator.

The loan to originator is classified within Debtors. The initial measurement is at fair value with subsequent measurement being amortised cost using the Effective Interest Rate ("EIR") method. The effective interest on the loan to the originator is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio.

**Interest and similar income and expense**
Interest income on mortgage assets underlying the loan to originator, together with the interest expense on the mortgage backed notes, is recognised in the Profit and Loss Account on an EIR basis. The EIR recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan or mortgage backed notes.

**Impairment of mortgage assets underlying the loan to originator**
The originator assesses at each balance sheet date whether there is evidence that a mortgage loan or a portfolio of mortgage loans is impaired. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ("a loss event"), and that loss event or events has had an impact on the estimated future cash flows of the mortgage loans or the portfolio that can be reliably estimated.

The originator first assesses whether objective evidence of impairment exists individually for mortgage loans that are individually significant, and then collectively for mortgage loans that are not individually significant. If the originator determines that no objective evidence of impairment exists for an individually assessed mortgage loan, it includes the asset in a group of mortgage loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

## Notes to the financial statements
at 31 March 2014

### 1. ACCOUNTING POLICIES (continued)

**Impairment of mortgage assets underlying the loan to originator (continued)**
For the purposes of a collective evaluation of impairment, mortgage loans are grouped on the basis of similar risk characteristics, taking into account asset type, borrower, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the Profit and Loss Account.

Any impairment in the underlying mortgage assets will be reflected in the Company's accounts by adjusting the carrying amount of the loan to originator.

**Mortgage backed loans**
The mortgage backed loan notes were initially recognised at fair value, which was their par value at the date of issue. The loan notes are subsequently measured at amortised cost taking into account repayments at Interest Payment Dates where applicable.

**Taxation**
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions:

(i) Deferred tax assets are recognised only to the extent that the Directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(ii) Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Deferred consideration**
Deferred consideration represents further amounts payable relating to the acquisition of mortgages from Norland DACS 19 Limited, an affiliated company. An accrual is made for deferred consideration within the financial statements as amounts are expected to become payable as a result of the performance of acquired mortgages.

## Notes to the financial statements
at 31 March 2014

### 1. ACCOUNTING POLICIES (continued)

***Derivative financial instruments***
The Company uses derivative financial instruments to hedge its exposure to interest rate risk and foreign exchange risk arising from financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes. None of the hedge relationships held by the Company qualify for hedge accounting.

FRS 26 requires all derivative financial instruments to be recognised initially at fair value. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the Profit and Loss Account. The fair value of the derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the derivative contract at the balance sheet date.

**Basis rate swaps**
A series of amortising basis rate swaps were entered into in order to manage the Company's basis rate exposure arising from the difference in reset dates of the loan notes and the mortgage assets underlying the Loan to originator. The net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the Profit and Loss Account.

**Currency swaps**
A series of currency swaps were entered into in order to manage the Company's currency exposure in relation to non-Sterling denominated Loan Notes. The net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the Profit and Loss Account.

**Foreign currencies**
Loan Notes included in financial liabilities, denominated in foreign currencies, are reported at the rates of exchange prevailing at the balance sheet date. Any exchange differences arising in the year on the settlement or retranslation of foreign currency liabilities are included in the Profit and Loss Account.

**Turnover**
The Company's income and trade are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented.

## Notes to the financial statements
at 31 March 2014

### 2. INTEREST RECEIVABLE AND SIMILAR INCOME

| | Year ended 31 March 2014 | Year ended 31 March 2013 |
|---|---|---|
| | £'000 | £'000 |
| On loan to originator | 3,109 | 3,719 |
| Other interest | 21 | 74 |
| | 3,130 | 3,793 |

In the current year, the estimated weighted average life of the mortgage assets underlying the loan to originator is 6.8 years (2013: 6.8 years). The EIR adjustment on loan to originator was an expense of £264,000 (2013: expense of £270,000).

Interest accrued for the year in relation to impaired financial assets is 1.46% (2013: 1.03%) of the principal balance.

### 3. INTEREST PAYABLE AND SIMILAR CHARGES

| | Year ended 31 March 2014 | Year ended 31 March 2013 |
|---|---|---|
| | £'000 | £'000 |
| On mortgage backed loan notes | 961 | 1,261 |
| Interest payable – other | 20 | 22 |
| | 981 | 1,283 |

### 4. OTHER OPERATING INCOME

| | Year ended 31 March 2014 | Year ended 31 March 2013 |
|---|---|---|
| | £'000 | £'000 |
| Sundry fee income | 41 | 1 |

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | Year ended 31 March 2014 | Year ended 31 March 2013 |
|---|---|---|
| | £'000 | £'000 |
| **Profit on ordinary activities before taxation is stated after charging the following within operating expenses:** | | |
| Deferred consideration | 1,620 | 1,061 |
| Auditors' remuneration – audit services (audit of the Company's financial statements) | 16 | 15 |
| Crystallised losses and impairments to expected cash flows on mortgage assets underlying the loan to originator | 227 | 1,362 |

Statutory information on remuneration for other services provided by the Company's auditors to the Investec group is given in the consolidated financial statements of Investec plc, which is the largest group into which the results of this Company are consolidated. There are no non-audit services specific to the Company.

## Notes to the financial statements
at 31 March 2014

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

For UK corporation tax purposes, the Company is subject to tax in accordance with the interim regime for securitisation companies. As set out in Section 83 of Finance Act 2005, this requires that its tax is calculated based on the accounts as if they have been prepared in accordance with UK Generally Accepted Accounting Practice as it applied for a period of account ending on 31 December 2004.

The Company's profit before tax for the year, calculated by reference to UK Generally Accepted Accounting Practice as it applied for a period of account ending on 31 December 2004, is £Nil (2013: £Nil). As such, no corporation tax charge arises on the profit for the current year.

### 7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Company has no employees (2013: Nil). The Directors' remuneration for the year was £10,000 (2013: £10,000). The Directors' remuneration is partly paid by an affiliate company, Investec Bank plc.

### 8. MORTGAGE ASSETS UNDERLYING THE LOAN TO ORIGINATOR – NET BALANCES

The Company has purchased a portfolio of mortgage loans from Norland DACS 19 Limited. However, as significant economic risks and rewards associated with these mortgage loans remain with Norland DACS 19 Limited, these loans are not deemed to have been transferred to the Company for accounting purposes. Accordingly, the Company accounts for the transaction as a loan to Norland DACS 19 Limited, as originator.

The loan to Norland DACS 19 Limited is denominated in Sterling and is secured on the beneficial interest in a portfolio of residential mortgage loans. It bears interest based upon the characteristics and performance of the underlying mortgage loans. The performance of the loan and underlying mortgages is as follows:

| | Loan to originator £'000 | Impairments to expected cash flows £'000 | Net loan balance £'000 |
|---|---|---|---|
| At 1 April 2012 | 74,053 | - | 74,053 |
| Movement in the year | (8,908) | (833) | (9,741) |
| At 31 March 2013 | 65,145 | (833) | 64,312 |
| Movement in the year | (8,997) | 25 | (8,972) |
| At 31 March 2014 | 56,148 | (808) | 55,340 |

Included within the pool of underlying mortgage assets are first charge mortgage loans. The remaining loan periods range between 0 to 247 months (2013: 0 to 259 months) with current interest rates ranging from 3.75% to 9.00% per annum (2013: 3.80% to 9.00%).

The mortgage loans are held as security against the loan notes referred to in Note 12.

## Notes to the financial statements
at 31 March 2014

### 8. MORTGAGE ASSETS UNDERLYING THE LOAN TO ORIGINATOR – NET BALANCES (continued)

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The impairment provision includes a specific provision of £210,000 (2013: £233,000). The amortised cost and impairment models used to estimate future cash flows in the impairment calculation are sensitive to certain key assumptions, including the constant prepayment rate ("CPR") of 10%, the expected future house price index ("HPI"), the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred.

### 9. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Loan to originator: Net loan balance (Note 8) | 53,444 | 62,901 |
| | 53,444 | 62,901 |

### 10. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Loan to originator: Net loan balance (Note 8) | 1,896 | 1,411 |
| Prepayments and accrued income | 23 | 25 |
| Amounts due from group companies | 55 | - |
| | 1,974 | 1,436 |

Amounts due from group companies are interest free and repayable on demand.

### 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Accruals and deferred income | 168 | 195 |
| Deferred consideration | 19,770 | 20,878 |
| Collateral accounts | 8,380 | 9,434 |
| Amounts due to group companies | 381 | 358 |
| Other creditors | 104 | 104 |
| | 28,803 | 30,969 |

Amounts due to group companies are interest free and repayable on demand.

## Notes to the financial statements
at 31 March 2014

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)**

At 31 March 2014, the Company held £8,380,000 (2013: £9,434,000) of cash, including interest, as collateral as a result of the downgrading of certain swap counterparties' credit ratings. The right to the cash remains with the swap counterparty and a collateral creditor has thus been recognised. Collateral accounts accrue interest at published overnight currency interest rates and are repayable in the event the swap counterparty's credit rating exceeds pre-determined thresholds.

**12. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| GBP Denominated Mortgage backed loan notes due 2038 – Class A2a | 7,478 | 12,819 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class A2c | 5,573 | 9,742 |
| GBP Denominated Mortgage backed loan notes due 2038 – Class M1a | 12,050 | 12,050 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class M1c | 9,266 | 9,478 |
| GBP Denominated Mortgage backed loan notes due 2038 – Class M2a | 2,728 | 2,728 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class M2c | 10,337 | 10,574 |
| GBP Denominated Mortgage backed loan notes due 2038 – Class B1a | 5,229 | 5,229 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class B1c | 5,659 | 5,788 |
| | 58,320 | 68,408 |

The mortgages backed floating rate notes due in 2038 are secured over a portfolio of mortgage loan notes secured by first charges over residential properties in the United Kingdom (Note 8).

The mortgages were purchased from Norland DACS 19 Limited. Administration of the mortgage loans is outsourced to Homeloan Management Limited ("HML"), a subsidiary of Skipton Building Society, a third party.

Whilst the mortgage backed floating rate notes are subject to mandatory redemption in part at each Interest Payment Date in an amount equal to the principal received or recovered in respect of the mortgages, the mortgage backed floating rate notes are classified and presented as amounts falling due after one year in accordance with the contractual maturity dates due to the uncertainty in the expected principal repayments or recoveries of the mortgages. If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in December 2038.

## Notes to the financial statements
at 31 March 2014

**12. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR (continued)**

Interest on the notes is payable quarterly in arrears at the following annual rates for three month deposits:

| | |
|---|---|
| Class A2a | Sterling LIBOR + 0.40% |
| Class A2c | EURIBOR + 0.38% |
| Class M1a | Sterling LIBOR + 0.80% |
| Class M1c | EURIBOR + 0.70% |
| Class M2a | Sterling LIBOR + 1.40% |
| Class M2c | EURIBOR + 1.20% |
| Class B1a | Sterling LIBOR + 2.20% |
| Class B1c | EURIBOR + 2.00% |

**13. CALLED UP SHARE CAPITAL**

At incorporation, 49,998 ordinary shares of £1 with aggregate nominal value of £49,998 were allotted and part paid at 25p each. In addition, 2 ordinary shares of £1 were allotted and fully paid at £1 each.

| | 2014 | 2013 |
|---|---|---|
| | £ | £ |
| **Authorised:** | | |
| Ordinary shares of £1 each | 50,000 | 50,000 |
| **Allotted and called up:** | | |
| 49,998 (2013: 49,998) ordinary shares of £1 each, 25p paid | 12,499 | 12,499 |
| 2 (2013: 2) shares 100% called up and fully paid | 2 | 2 |
| | 12,501 | 12,501 |

**14 PROFIT AND LOSS ACCOUNT**

| | 2014 | 2013 |
|---|---|---|
| | £ | £ |
| Retained profit brought forward | - | - |
| Profit for the year | - | - |
| Retained profit carried forward | - | - |

## Notes to the financial statements
at 31 March 2014

### 15. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Opening shareholder's funds | 13 | 13 |
| *Profit for the year* | - | - |
| Closing shareholder's funds | 13 | 13 |

### 16. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

As explained in the Strategic Report, the Company uses financial instruments in its normal course of business. The following analysis gives an indication of the significance of these instruments to the Company.

### (A) FAIR VALUE OF DERIVATIVES

| | 2014 Notional amount £'000 | 2014 Assets £'000 | 2014 Liabilities £'000 | 2013 Notional amount £'000 | 2013 Assets £'000 | 2013 Liabilities £'000 |
|---|---|---|---|---|---|---|
| **Interest rate** | | | | | | |
| Basis rate swaps | 53,091 | - | 9 | 61,725 | - | 10 |
| **Foreign exchange** | | | | | | |
| Currency swaps | 25,679 | 5,238 | - | 28,898 | 6,702 | - |
| | | 5,238 | 9 | | 6,702 | 10 |

The Company recognised losses on fair value of derivatives of £1,463,000 during the year (2013: gain of £121,000). FRS 29 – Financial Instruments: Disclosures requires that an entity classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in the measurement. For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation, and is constructed by benchmarking to generic instruments in the market that are sensitive to Overnight Index Swap ("OIS") movements. Consequently, the Company deems all its derivative financial instruments to be Level 2 per FRS 29.

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the non-Sterling denominated mortgage backed loan notes, are set with reference to the London Interbank Offer Rate ("LIBOR"). The rates of interest payable on the mortgage backed loans are set as detailed in Note 12.

*The basis rate swap has a contractual maturity of 1 February 2038.*

## Notes to the financial statements
at 31 March 2014

### 16. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS (continued)

### (B) INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AS AT 31 MARCH 2014 AND 2013

| | Total £'000 | Total variable rate £'000 | Total fixed rate £'000 | Weighted average interest rate** % | W. ave time for which is fixed Years |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Loan to originator | 56,148 | 56,148 | - | 5.80 | |
| Cash in call account | 26,489 | - | 26,489 | 0.12 | 0.25 |
| **2013** | | | | | |
| Loan to originator | 65,145 | 65,145 | - | 5.81 | |
| Cash in call account | 28,361 | - | 28,361 | 0.11 | 0.25 |

### (C) INTEREST RATE RISK PROFILE OF FINANCIAL LIABILITIES AS AT 31 MARCH 2014 AND 2013

| | Total £'000 | Total variable rate £'000 | Total fixed rate £'000 | Swap paying rate % | Swap receiving rate % | Weighted average interest rate** % | W. ave time for which is fixed Years |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| Mortgage backed loan notes | 58,320 | 58,320 | - | - | - | 0.52 | |
| Basis rate swaps* | 9 | 9 | - | 0.52 | 0.52 | - | - |
| **2013** | | | | | | | |
| Mortgage backed loan notes | 68,408 | 68,408 | - | - | - | 0.52 | |
| Basis rate swaps* | 10 | 10 | - | 0.51 | 0.51 | - | - |

Basis rate swaps are used to manage the interest rate risk on the mortgage book.

Interest payable on the loan notes and receivable on mortgage assets are both based on LIBOR while basis rate swaps hedge differences in timing. Whilst certain loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR notes), the Company has entered into currency swap agreements which allows the Company to settle its note liability obligations with reference to LIBOR. The Company is thus not exposed to interest rate risk.

The interest rate risk profile of the mortgage backed loan notes in issue can be found in note 12 and in the principal risk and uncertainties section of the Strategic Report.

* The derivatives are shown at fair value. The corresponding notional amounts are disclosed in note 16(A).

** This is the weighted average spread above LIBOR.

## Notes to the financial statements
at 31 March 2014

### 16. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS (continued)

### (D) FOREIGN CURRENCY RISK

With the exception of certain mortgage backed loan notes and cross currency swaps, all financial instruments are denominated in Sterling. The outstanding mortgage backed loan notes include the following foreign currency denominated balances:

| | **2014 Notional amount** | **2013 Notional amount** |
|---|---|---|
| EUR Denominated Mortgage backed loan notes due 2038 – Class A2c | € 6,723,000 | € 11,521,000 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class M1c | € 11,210,000 | € 11,210,000 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class M2c | € 12,505,000 | € 12,505,000 |
| EUR Denominated Mortgage backed loan notes due 2038 – Class B1c | € 6,845,000 | € 6,845,000 |

A series of currency swaps have been entered into, in order to manage the Company's currency rate exposure in relation to non-Sterling denominated loan notes.

The following is the profile of the Company's currency swaps:

| | **2014 Notional amount** | **2013 Notional amount** |
|---|---|---|
| Euro denominated currency swaps | € 37,283,000 | € 42,081,000 |

The Company is not materially exposed to foreign exchange risk as the currency swap notional matches the notional of the Euro denominated loan notes.

The fair value of the currency swaps are disclosed in Note 16 (A). The maturity profile of the currency swaps is consistent with the loan notes.

### (E) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

| | **Book value 2014 £'000** | **Fair value 2014 £'000** | **Book value 2013 £'000** | **Fair value 2013 £'000** |
|---|---|---|---|---|
| **On balance sheet** | | | | |
| Mortgage assets underlying the loan to originator | 55,340 | 52,318 | 64,312 | 56,533 |
| Cash at bank and in hand | | | | |
| Reserve and contingency funds | 16,250 | 16,250 | 16,250 | 16,250 |
| Other cash balances | 10,239 | 10,239 | 12,111 | 12,111 |
| | 26,489 | 26,489 | 28,361 | 28,361 |
| Mortgage backed loan notes due 2038 | (58,320) | (51,799) | (68,408) | (55,921) |

## Notes to the financial statements
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### 16. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS (continued)

### (E) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The Directors have considered the fair values of the Company's main financial assets and liabilities, which are mortgage assets underlying the loan to originator and non-recourse mortgage backed loan notes.

The fair value of the Notes has been based upon their quoted prices, where available, or prices interpolated using latest available market data. The fair value of the mortgage assets has been based upon the fair value of the associated securitised loan notes, and expected residual cash flows. It is the opinion of the Directors that this methodology, which was the same in the prior year, is appropriate as the market is more liquid than in prior years.

### (F) CREDIT RISK

Credit risk is the risk that borrowers of the mortgages underlying the loan to the originator will not be able to meet their obligations as they fall due. All mortgages purchased by the Company were required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage loans. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the Directors.

The level of arrears in the underlying mortgage portfolio has largely stabilised, which the Directors consider consistent with the gradual easing in the severe market conditions experienced in the past few years in the UK mortgage market. Low re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the Directors acknowledge that the easing of severe market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the Directors closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

The maximum exposure to credit risk, without taking into account collateral, is £55,340,000 (2013: £64,312,000).

### (G) LIQUIDITY ANALYSIS

Liquidity analysis of financial liabilities based on undiscounted cash flows:

| | 0-5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|
| **2014** | | | |
| Loan notes | 31,229 | 28,374 | 59,603 |
| Derivative financial instruments | 9 | - | 9 |
| | 31,238 | 28,374 | 59,612 |
| **2013** | | | |
| Loan notes | 40,610 | 34,907 | 75,517 |
| Derivative financial instruments | 10 | - | 10 |
| | 40,620 | 34,907 | 75,527 |

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## Notes to the financial statements
at 31 March 2014

### 16. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS (continued)

### (G) LIQUIDITY ANALYSIS (continued)

The loan note liabilities will not agree to the liability on balance sheet as the table incorporates both principal and interest payments on an undiscounted basis (see Note 12 for maturity dates).

The Company's policy is to manage liquidity risk by matching cash payments due on the loan notes to cash receipts from mortgage assets. In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances.

### 17. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| **(Decrease) / Increase in cash in the year** | **(1,872)** | **2,822** |
| Amount of debt redeemed | 8,636 | 8,621 |
| Deferred consideration payments | 2,728 | 1,617 |
| Other cash movements | 4 | (18) |
| **Change in net debt resulting from cash flows** | **9,496** | **13,042** |
| Foreign exchange on mortgage backed loan notes | 1,452 | 122 |
| Deferred consideration accrued for the year | (1,620) | (1,061) |
| Other | 1,054 | (2,256) |
| **Movement in net debt** | **886** | **(3,195)** |
| Net debt at start of year | (71,016) | (80,863) |
| **Net debt at 31 March 2014** | **(60,634)** | **(71,016)** |

### 18. ANALYSIS OF CHANGES IN NET DEBT

| | Opening £'000 | Cash Flow £'000 | Other Movements £'000 | Closing £'000 |
|---|---|---|---|---|
| Cash at bank in hand | 28,361 | (1,872) | - | 26,489 |
| Borrowings: | | | | |
| Mortgage backed loan notes | (68,408) | 8,636 | 1,452 | (58,320) |
| Creditors: amounts falling due within one yea | (10,091) | 4 | 1,054 | (9,033) |
| Deferred consideration | (20,878) | 2,728 | (1,620) | (19,770) |
| | **(71,016)** | **9,496** | **886** | **(60,634)** |

## Notes to the financial statements
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**19. PARENT UNDERTAKING AND CONTROL**

The Company's parent undertaking is Residential Mortgage Securities Limited, which is registered and operates in England and Wales.

The entire issued share capital of Residential Mortgage Securities Limited is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none, for the benefit of the note holders and ultimately for charitable purposes.

The Company's operations are administered by Investec plc, who retain an interest in the cashflows and profits of the Company.

Accordingly, the largest and smallest group in which the results of the Company are consolidated is that headed by Investec plc, a company registered in England and Wales. The consolidated accounts are available to the public from Investec plc at 2 Gresham Street, London EC2V 7QP.

In relation to the above, below is a list of transactions between these entities:

| **Related party transactions** | **Investec plc and its subsidiaries** | **Capita Trust** | **Total** |
|---|---|---|---|
| **2014** | **£'000** | **£'000** | **£'000** |
| Interest receivable on loan to originator | 3,109 | - | 3,109 |
| Loan to originator | 55,340 | - | 55,340 |
| Deferred consideration expense | 1,620 | - | 1,620 |
| Deferred consideration balance | (19,770) | - | (19,770) |
| Other services expenses | 29 | 19 | 48 |
| Other services balance | (329) | (1) | (330) |
| **2013** | | | |
| Interest receivable on loan to originator | 3,719 | - | 3,719 |
| Loan to originator | 64,312 | - | 64,312 |
| Deferred consideration expense | 1,061 | - | 1,061 |
| Deferred consideration balance | (20,878) | - | (20,878) |
| C note interest expense | 10 | - | 10 |
| Other services expenses | 33 | 33 | 66 |
| Other services balance | (389) | (18) | (407) |

The above transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. None of the outstanding balances have been impaired.

**20. CAPITAL MANAGEMENT**

The entity's capital consists of share capital contributed by investors. Due to the structural features of the securitisation process, where cash paid out to noteholders cannot exceed cash received, and where Norland DACS 19 Limited is entitled to any excess deferred consideration, the amount of share capital is not expected to fluctuate over time. Accordingly, the objective of capital management is to hold constant the amount of share capital, and this objective is achieved by the structural features of the securitisation transaction documented in the offering circular and other legal documentation of the Norland DACS 19 Limited transaction.

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## Notes to the financial statements
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**21. POST BALANCE SHEET EVENTS**

Investec plc has agreed the sale of the Kensington Group to funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners on 9 September 2014. The sale is subject to regulatory approval which is expected in the next 6 months. The Company is included in the sale transaction. At this stage, the Directors consider that there is no material impact to the financial statements as at 31 March 2014 and for the year then ended.