

**THE MALL FUNDING PLC**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

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# **THE MALL FUNDING PLC**

<b>CONTENTS</b>	<b>PAGE</b>
Officers and Professional Advisers	<b>1</b>
Directors' Report	<b>2 - 5</b>
Statement of Directors' Responsibilities	<b>6</b>
Independent Auditor's Report	<b>7</b>
Statement of Comprehensive Income	<b>8</b>
Statement of Changes in Equity	<b>8</b>
Statement of Financial Position	<b>9</b>
Statement of Cash Flows	<b>10</b>
Notes to the Financial Statements	<b>11 - 22</b>

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**THE MALL FUNDING PLC**  
**OFFICERS AND PROFESSIONAL ADVISERS**

<b>Directors</b>	Wilmington Trust SP Services (London) Limited Mr M H Filer Mr J C Schroeder (resigned 15 May 2012) Mr D R Fisher (appointed 15 May 2012)
<b>Company number</b>	05412608
<b>Company secretary</b>	Wilmington Trust SP Services (London) Limited
<b>Registered office</b>	c/o Wilmington Trust SP Services (London) Limited Third Floor 1 King's Arms Yard London EC2R 7AF
<b>Auditor</b>	Deloitte LLP Chartered accountants and statutory auditor London

**THE MALL FUNDING PLC**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2012

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Mall Funding Plc is incorporated in England and Wales under the Companies Act 2006

The company's principal activity, which remained unchanged during the year, is that of a special purpose company established in order to issue the Notes (being listed bonds issued by the company to fund the inter-company loan to The Mall Limited Partnership), ("the loan" or "Inter-Company Loan"), to open accounts, to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the offering circular dated 22 April 2005

The money lent to The Mall Limited Partnership ("loan to originator") is secured against fixed mortgages over and rental income from a portfolio of shopping centres located throughout Great Britain. The property portfolio at the year-end consisted of 8 shopping centres (2011: 9). During the current year there have been payments on the loan of £91,442,868 (2011: £165,428,309) taking the balance down to £570,866,679 (2011: £662,309,547) at year end. The net LTV as at the year end is 67.79% (2011: 54%).

On 10 June 2010, a Consent Solicitation Process was launched to restructure the Notes which originally matured in April 2014. At 10 June 2010 the outstanding principal of the Notes amounted to £1,077 million and originally the loan from the company to The Mall Limited Partnership which would have matured in April 2012 amounted to £1,077 million.

The key elements of the restructuring were as follows:

- An extension of the maturity date of the Inter-Company Loan by three years to 22 April 2015 and the legal maturity of the Notes to 22 April 2017.
- A cash contribution of £155 million from retained cash held in the Partnership Account, of which £50 million was applied on closing to the prepayment of the Inter-Company Loan and £85 million to fund leasing incentives, capital expenditure, working capital reserves, and with the balance covering swap breakage costs, consent solicitation fees, various costs of the transaction and contingencies.

The Company's current principal loan terms, which remained unchanged during the year, are mandatory amortisation requiring that the Inter-Company Loan be reduced to an amount equal to or less than £800 million by December 2012 and £600 million by December 2014, the LTV (loan to value) covenant (defined as outstanding debt divided by gross property value) related to the Inter-Company Loan will be tested and will require that the LTV is equal to or less than (i) 77% in December 2012 (ii) 71% in December 2013 (iii) 65% in December 2014, and distributions are restricted until total debt outstanding is £600 million or less and the LTV is 60% or less.

The Intercompany Loan has a Final Repayment Date of 22 April 2015. The Notes have a Final Maturity Date of 22 April 2017. If the Borrower repays the Intercompany Loan in full on or before the Final Maturity Date, the Issuer will be required to redeem the Notes in full on the next succeeding Interest Payment Date.

**THE MALL FUNDING PLC**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW (continued)**

As at 31 December 2012 the interest rate swaps were valued as a liability of £37,005,761, compared to a liability of £47,653,915 as at 31 December 2011, showing an overall decrease in liability of £10,648,154 in 2012. This was due to a partial swap breakage during the year and a year's reduction in the swap term.

The key performance indicator of the business is considered to be the net interest margin. In the year ended 31 December 2012, the company achieved a net interest margin of 0.2%. In the year ended 31 December 2011, the company achieved a net interest margin of 0.4%.

**RESULTS AND DIVIDENDS**

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The profit of the company for the year based on these financial statements prepared using International Financial Reporting Standards ("IFRSs") as adopted by the European Union, amounted to £7,887,988 (2011: £1,271,994 profit). The profit arises principally due to recognition of the interest rate swap at fair value. The interest rate swap is an economic hedge against the loan to originator (see note 1(e)), however the loan to originator is accounted for at amortised cost and fair value movements which would compensate the gain or loss on swap are not recognised on the balance sheet. Details of fair values are set out in note 15.

As a consequence of the accounting treatment for the interest rate swap and loan to originator set out above, the company reports net liabilities of £27,736,974 at 31 December 2012 (2011: £35,624,962). Again this arises because the fair value gain on the loan to originator is not recognised as described above. Under the terms of the loan agreement with The Mall Limited Partnership, the company's cash outflows are matched by cash inflows from the partnership. The debt in the underlying partnership will ultimately be repaid through realisation of underlying property assets.

The directors have not recommended a dividend (2011: £nil).

**POST BALANCE SHEET EVENTS**

There was a partial redemption of the loan notes on 22 April 2013 of £17,413,333.

**GOING CONCERN**

The directors have considered the use of the going concern basis in the preparation of the financial statements in light of the net liabilities position on the balance sheet as at 31 December 2012 which is due to the recognition of the interest rate swap at fair value.

The company is a special purpose company and is not carrying out any business other than the issue of the Notes, the lending of the proceeds thereof to The Mall Limited Partnership and transactions ancillary thereto. The ability of the company to meet its obligations under the Notes will be principally dependent on the receipt by it of funds from The Mall Limited Partnership under the terms of the loan, the receipt of funds from the swap providers, and in certain circumstances the liquidity facility provider. Other than these, and prior to enforcement of the underlying security, the company will not have any other significant funds available to meet its obligations under the Notes and in respect of any payment ranking in priority to, or pari passu with, the notes.

The loan to The Mall Limited Partnership will mature in April 2015. The Mall Limited Partnership has been actively managing the challenge posed by the loan maturity by reducing debt through opportunistic asset sales, retaining cash by suspending distributions, and stopping non-essential and uncommitted capital expenditure. The directors have enquired and have concluded that The Mall Limited Partnership will be able to meet the requirements and covenants (as described in the above).

After making enquiries, the directors therefore have a reasonable expectation that the company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**THE MALL FUNDING PLC**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**PRINCIPAL RISKS AND UNCERTAINTIES**

The company exists to facilitate loans to The Mall Limited Partnership which have been used by The Mall Limited Partnership to acquire an interest in a portfolio of shopping centres. The principal risks and uncertainties for the company are as follows:

**Interest rate risk**

Interest rate risk arises principally from changes in interest rates. The company has an interest rate risk in that the loan to The Mall Limited Partnership and the interest paid on the Notes are variable. The company has minimised this exposure by entering into interest rate swap transactions with Credit Suisse First Boston International and another with Lloyds TSB Bank Plc to manage the company's exposure to interest rate risk associated with the Notes. The costs related to these transactions are passed through to The Mall Limited Partnership.

**Credit risk**

Credit risk exists where the company is unable to collect money owed to it in full or on time. The main credit risk for the company relates to collection of amounts due under the loan to The Mall Limited Partnership and also to receipt of monies due under the interest rate swap transactions. The ability of The Mall Limited Partnership to repay the loan is limited by the ability of The Mall Limited Partnership to collect monies owed to it from the underlying portfolio of shopping centres and its ability to ultimately realise the shopping centres for more than the loan balance. At 31 December 2012 the loan outstanding to The Mall Limited Partnership amounted to £569,981,710 (2011: £660,810,978) whilst the valuation of the underlying property portfolio amounted to £842,125,000 (2011: £957,621,000).

The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The company's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

**Liquidity risk**

Liquidity risk exists where the company is unable to pay its liabilities as they fall due for payment due to insufficient cash. The company has entered into a liquidity facility agreement with Barclays Bank PLC which will be available, subject to certain criteria and circumstances, in the event that the company is unable, on a temporary basis, to meet its financial commitments.

**Currency risk**

All of the company's assets and liabilities are denominated in Sterling and therefore there is no foreign currency risk.

Further discussion of the company's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 15.

**THE DIRECTORS**

The directors, who served the company throughout the year, except as noted, were as follows:

Wilmington Trust SP Services (London) Limited

Mr M H Filer

Mr J-C Schroeder (resigned 15 May 2012)

Mr D R Fisher (appointed 15 May 2012)

**CREDITOR PAYMENT POLICY**

It is the company's policy to pay creditors when they fall due for payment. There are no trade creditors in either the current or prior year.

**THE MALL FUNDING PLC  
DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**AUDITOR**

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Deloitte LLP were appointed sole auditor and have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Signed by order of Board of Directors



**Miss M Clarke**  
For on the behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Company Secretary

Date 3 May 2013

**THE MALL FUNDING PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

The directors are responsible for preparing the Annual Report and 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 are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

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 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.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MALL FUNDING PLC FOR THE YEAR ENDED 31 DECEMBER 2012**

We have audited the financial statements of The Mall Funding Plc for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Statement of Directors' Responsibilities, 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 annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

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

### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

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

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

*Andrew Clark FCA*

**Andrew Clark, FCA (Senior Statutory Auditor)**

**for and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor

London, United Kingdom

Date *3 May* 2013

**THE MALL FUNDING PLC**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 £	2011 £
Fair value gain on financial instruments	15	10,648,154	3,061,890
Operating expenses	6	<u>(167,685)</u>	<u>(181,109)</u>
<b>Operating profit</b>	3	<b>10,480,469</b>	<b>2,880,781</b>
Finance income	4	32,819,210	48,650,816
Finance costs	5	<u>(32,749,652)</u>	<u>(48,461,950)</u>
<b>Net finance income</b>		<b><u>69,558</u></b>	<b><u>188,866</u></b>
<b>Profit before tax for the year</b>		<b>10,550,027</b>	<b>3,069,647</b>
Taxation	7	<u>(2,662,039)</u>	<u>(1,797,653)</u>
<b>Net profit attributable to equity holders</b>	12	<b><u>7,887,988</u></b>	<b><u>1,271,994</u></b>

The current year profit and prior year profit shown above are derived from continuing activities

No operations were acquired or discontinued in the current or prior year

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**


	Share capital £	Retained earnings £	Total £
Balance at 1 January 2011	12,502	(36,909,458)	(36,896,956)
Profit for the year	<u>-</u>	<u>1,271,994</u>	<u>1,271,994</u>
Balance at 31 December 2011	<u>12,502</u>	<u>(35,637,464)</u>	<u>(35,624,962)</u>
<b>Profit for the year</b>	<b><u>-</u></b>	<b><u>7,887,988</u></b>	<b><u>7,887,988</u></b>
<b>Balance at 31 December 2012</b>	<b><u>12,502</u></b>	<b><u>(27,749,476)</u></b>	<b><u>(27,736,974)</u></b>

The notes on pages 11 to 22 form an integral part of these financial statements

**THE MALL FUNDING PLC**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

	Notes	2012 £	2011 £
<b>Assets</b>			
<b>Non-current assets</b>			
Loan to originator	9	569,981,710	660,810,978
Deferred tax asset	8	<u>9,251,440</u>	<u>11,913,479</u>
		<u>579,233,150</u>	<u>672,724,457</u>
<b>Current assets</b>			
Other receivables	10	4,522,642	6,741,244
Cash and cash equivalents	11	<u>109,427</u>	<u>222,067</u>
		<u>4,632,069</u>	<u>6,963,311</u>
<b>Total assets</b>		<u>583,865,219</u>	<u>679,687,768</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	13	567,672,922	656,901,355
Derivative liability	15	<u>37,005,761</u>	<u>47,653,915</u>
		<u>604,678,683</u>	<u>704,555,270</u>
<b>Current liabilities</b>			
Interest payable	13	1,321,245	2,064,714
Other payables	14	<u>5,602,265</u>	<u>8,692,746</u>
		<u>6,923,510</u>	<u>10,757,460</u>
<b>Net current liabilities</b>		<u>(2,291,441)</u>	<u>(3,794,149)</u>
<b>Total liabilities</b>		<u>611,602,193</u>	<u>715,312,730</u>
<b>Net liabilities</b>		<u>(27,736,974)</u>	<u>(35,624,962)</u>
<b>Equity</b>			
Share capital	12	12,502	12,502
Deficit	12	<u>(27,749,476)</u>	<u>(35,637,464)</u>
<b>Deficit attributable to equity holders</b>	12	<u>(27,736,974)</u>	<u>(35,624,962)</u>

The financial statements for The Mall Funding Plc, registration number 05412608, were approved by the board of directors and authorised for issue on the 3 May 2013. They were signed on its behalf by



Miss M Clarke  
For and on the behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Director

The notes on pages 11 to 22 form an integral part of these financial statements

**THE MALL FUNDING PLC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 £	2011 £
<b>Cash flows from operating activities</b>			
Operating profit		10,480,469	2,880,781
<i>Adjustments for</i>			
Fair value gain on financial instruments		<u>(10,648,154)</u>	<u>(3,061,890)</u>
<b>Operating cash flow before movements in working capital</b>		(167,685)	(181,109)
(Increase)/decrease in receivables		(92)	36,317
Increase/(decrease) in payables		<u>1,328</u>	<u>(14,564)</u>
<b>Cash used in operations</b>		(166,449)	(159,356)
Facility fee paid		(321,793)	(379,304)
Cash received for expenses		484,724	668,376
Interest received on loan to originator		32,336,942	41,609,253
Net swap interest paid		(21,994,104)	(31,910,190)
Interest paid on notes		(10,451,966)	(9,698,734)
Income tax paid		<u>-</u>	<u>-</u>
<b>Net cash (used) in/from operating activities</b>		<u>(112,646)</u>	<u>130,045</u>
<b>Cash flows from investing activities</b>			
Bank interest received		6	7
Loan to originator partially repaid		<u>91,442,875</u>	<u>165,428,302</u>
<b>Net cash from investing activities</b>		<u>91,442,881</u>	<u>165,428,309</u>
<b>Cash flows from financing activities</b>			
Partial repayment on loan notes issued		<u>(91,442,875)</u>	<u>(165,428,302)</u>
<b>Net cash used in financing activities</b>		<u>(91,442,875)</u>	<u>(165,428,302)</u>
 Net (decrease)/increase in cash		 (112,640)	 130,052
Cash at beginning of year		<u>222,067</u>	<u>92,015</u>
<b>Cash at end of year</b>	11	<u><u>109,427</u></u>	<u><u>222,067</u></u>

As explained in the accounting policies on page 13, the cash is not freely available to be used

The notes on pages 11 to 22 form an integral part of these financial statements

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**1 SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and the preceding year.

**a) Statement of compliance**

The financial statements for the year ended 31 December 2012 and the comparatives have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the European Union ("EU") and effective at 31 December 2012.

**b) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

**Accounting developments and changes**

**i) Developments – during 2012**

During 2012 the new standards and amendments that have been issued and adopted by EU and the Group have not resulted in a material change to the financial statements.

**ii) Developments – not yet adopted**

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

- IFRS 1 (amended) Severe hyperinflation and removal of fixed dates for first time adopters
- IFRS 7 (amended) Disclosures – Transfers of financial assets
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair value measurement
- IAS 1 (amended) Presentation of items of other comprehensive income
- IAS 12 (amended) Deferred tax Recovery of underlying assets
- IAS 19 (revised) Employee benefits
- IAS 27 (revised) Separate financial statements
- IAS 28 (revised) Investments in associates and joint ventures

The directors are assessing the impact that the adoption of these standards may have on the financial statements of the company in future periods. The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements, however it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Going concern**

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 5, while note 15 to the financial statements sets out the company's financial risks management. As explained in the Directors' Report, the company has net liabilities as at 31 December 2012 as a consequence of recognition of the interest rate swap at fair value. The principal asset is the loan to originator with a carrying value of £570 million which is recoverable from The Mall Limited Partnership. The directors have enquired and have concluded that The Mall Limited Partnership is itself a going concern.

The loan to The Mall Limited Partnership is repayable on 22 April 2015, whereupon the company's external loans, being the Floating Rate Notes due 2017 (see Note 13 to the accounts), also become repayable. The Mall Limited Partnership has been actively managing the challenge posed by the loan maturity by reducing debt through opportunistic asset sales, retaining cash by suspending distributions, and stopping non-essential and uncommitted capital expenditure. The directors have enquired and have concluded that The Mall Limited Partnership will be able to meet the requirements and covenants (as described in the Directors' Report).

After making enquiries, the directors therefore have a reasonable expectation that the company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**d) Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In particular for the fair value of derivatives and the associated deferred tax, and the recoverability of assets. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements as to carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both the current and future years.

**e) Financial instruments**

Financial assets and liabilities are recognised on the balance sheet when the company has become a party to the contractual provisions of the instrument. The company's financial instruments comprise a loan, cash, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for The Mall Limited Partnership. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

***Loan to originator***

The loan to originator (or the Inter-Company Loan) is classified as "loans and receivables". The initial measurement is at cost with subsequent measurement being at amortised cost using the effective interest method. Under the terms of the loan agreement, The Mall Limited Partnership is entitled to repay the loan early providing certain conditions are met.

Under the terms of a Security Trust Deed, the company has granted fixed and floating charges over its assets and receivables, including the loan to originator, as security for the floating rate loan notes.

The loan to originator is subject to impairment reviews in accordance with IAS 39. A charge for impairment would be recognised where there is a risk that the income on the loan to originator will be significantly reduced. This could occur if the credit quality of the mortgage assets that are pledged as collateral for the loan deteriorated significantly. Currently the directors consider that no impairment exists.

The loan to originator is secured by legal mortgages in respect of The Mall Limited Partnership's assets deemed as being part of the securitised pool (inclusive of directly owned assets and the investment in The Main Square Camberley Unit Trust).

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Receivables***

Other receivables are measured at fair value

***Derivative financial instruments***

The company uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as held for trading.

Interest rate risk associated with the external loan is managed by means of interest rate swaps and interest rate caps with Credit Suisse First Boston International and Lloyds TSB Bank Plc, which requires the company to pay the effective yield on the Loan and receive payments based on a rate linked to the three-month sterling LIBOR.

The derivative has been fair valued through the Income Statement. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Interest receivable or payable on the interest rate swap is accounted for on an accruals basis within interest receivable or payable in the Income Statement.

***Cash and cash equivalents***

The company has deposits in bank accounts held in the company's name and which meet the definition of cash but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. The Statement of Cash Flows has been presented using the indirect method of preparation.

***Payables***

Payables are measured at fair value.

***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at the proceeds received, net of direct issue costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**f) Finance income**

Finance income consists primarily of interest earned on the loan to originator and is recognised in the income statement using the effective interest method.

**g) Finance costs**

Finance costs represent interest incurred on interest-bearing borrowing.

**h) Income tax**

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Under special rules issued by the Inland Revenue for securitisation companies, the company's charge for taxation is based on its taxable profits calculated on a UK GAAP basis but disclosed in accordance with IAS 12.

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**2. SEGMENTAL REPORTING**

All of the company's income and expenses, and assets and liabilities derive from its sole activity in the UK, being the provision of loan finance to The Mall Limited Partnership

**3 OPERATING PROFIT**

	2012	2011
	£	£
This has been arrived at after charging		
Fees payable to the company's auditor for the audit of the company's annual accounts	<u>12,720</u>	<u>11,948</u>

The directors received no emoluments (2011 £nil) for services to the company for the financial year

The company had no employees (2011 none) during the financial year

**4 FINANCE INCOME**

	2012	2011
	£	£
Income from loan to originator	30,604,762	45,257,720
Amortisation of issue costs reimbursed	2,201,467	3,373,208
Amortisation of discount on loan to originator	12,975	19,881
Bank interest	6	7
	<u>32,819,210</u>	<u>48,650,816</u>

Income from loan to originator includes other income received from The Mall Limited Partnership to cover the company's operating expenses and other finance costs under the Ongoing Facility Fee

**5. FINANCE COSTS**

	2012	2011
	£	£
Interest on loan notes	9,708,497	10,307,458
Net swap interest payable	18,177,367	30,185,622
Amortisation of issue costs	2,201,467	3,373,208
Amortisation of discount on loan notes	12,975	19,881
Swap break costs	2,327,553	4,196,477
Facility fee	321,793	379,304
	<u>32,749,652</u>	<u>48,461,950</u>

**6. OPERATING EXPENSES**

	2012	2011
	£	£
Administration and cash management fees	33,335	27,908
Audit fees	12,720	11,948
Corporate services fees	18,427	16,912
Third party expenses	47,725	72,908
Note trustee fees	4,214	4,203
Tax fees	12,960	7,472
Rating agency fees	38,304	39,758
	<u>167,685</u>	<u>181,109</u>



**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**7 TAXATION**

	2012 £	2011 £
<b>Current tax</b>		
Current year	-	(2,056)
<b>Deferred tax:</b>		
Current year	(2,291,981)	(842,519)
Change in tax rate	<u>(370,058)</u>	<u>(953,078)</u>
	<u>(2,662,039)</u>	<u>(1,797,653)</u>
Tax charge for the year	<u>(2,662,039)</u>	<u>(1,797,653)</u>
	2012 £	2011 £
<b>Reconciliation of the total tax charge</b>		
Profit before tax	<u>10,550,027</u>	<u>3,069,647</u>
Tax charge at the standard rate of corporation tax – 25 75% (2011 26 5%)	(2,716,632)	(844,575)
Change in tax rate for deferred tax (note 8)	<u>54,593</u>	<u>(953,078)</u>
Total tax charge reported in the Income Statement	<u>(2,662,039)</u>	<u>(1,797,653)</u>

**8. DEFERRED TAX**

IAS 12, 'Income Taxes', paragraph 20 requires a deferred tax liability or asset to be recognised where certain assets or liabilities (such as interest rate swaps) are carried at fair value on the balance sheet and the fair value does not affect the taxable profit for the current period therefore a temporary difference arises

	2012 £	2011 £
<b>Deferred tax asset</b>		
At 1 January	11,913,479	13,709,075
Debit to statement of comprehensive income	(2,716,632)	(842,518)
Change in tax rate	<u>54,593</u>	<u>(953,078)</u>
Balance carried forward	<u>9,251,440</u>	<u>11,913,479</u>

**Factors Affecting Future Tax Charges:**

The Budget on 21 March 2012 announced that the UK corporate tax rate would decrease from 26% to 24% from 1 April 2012 (rather than 26% as previously enacted on 23 March 2011). A current tax rate of 25 75% has been applied to the year ended 31 December 2012. In the UK, a deferred tax rate of 25 75% has been applied to opening balances and movements in deferred tax in the year ended 31 December 2012.

Subsequent annual rate reductions will require the restatement of deferred tax balances and this is likely to reduce the effective tax rate of the company when compared to the statutory tax rate. In 2012 the restatement of deferred tax balances has reduced the effective tax rate of the company from 26% to 25% (2011 27% to 26%) and the overall impact of the rate change is a tax charge of £54,593 (2011 £953,078).

The deferred tax asset is attributable to temporary differences arising in respect of the following items

	2012 £	2011 £
Tax loss due to rate changes	-	31,119
Fair value movement of derivatives	<u>9,251,440</u>	<u>11,882,360</u>
Deferred tax asset	<u>9,251,440</u>	<u>11,913,479</u>

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**9 LOAN TO ORIGINATOR**

	2012	2011
	£	£
At 1 January	662,309,554	827,737,856
Redemptions	<u>(91,442,875)</u>	<u>(165,428,302)</u>
	570,866,679	662,309,554
Issue costs reimbursed	(13,009,733)	(13,009,733)
Amortisation of issue costs reimbursed	12,143,477	11,542,845
Discount	(281,625)	(281,625)
Amortisation of discount	<u>262,912</u>	<u>249,937</u>
At 31 December	<u>569,981,710</u>	<u>660,810,978</u>
The balance can be analysed as follows		
Non-current assets	<u>569,981,710</u>	<u>660,810,978</u>
	<u>569,981,710</u>	<u>660,810,978</u>

The loan to originator was made to The Mall Limited Partnership and may be repaid early under certain circumstances as described in the Offering Circular

During the current year, the property portfolio of The Mall Limited Partnership has remained at 8, and there have been repayments of the loan of £91,442,875 (2011 £165,428,302)

The loan with The Mall Limited Partnership matures on 22 April 2015. The Mall Limited Partnership has been actively managing the challenge posed by the loan maturity reducing debt through opportunistic asset sales, retaining cash by suspending distributions, and stopping non-essential and uncommitted capital expenditure

Interest on the loan is at a rate of 3-month LIBOR plus 0.18% per annum. As part of the restructuring of the Notes described in the Directors' Report, the margin increased to 0.68% per annum in April 2011.

The loan to originator is secured by legal mortgages in respect of The Mall Limited Partnership's assets deemed as being part of the securitised portfolio (inclusive of directly owned assets and the investment in The Main Square Camberley Unit Trust)

**10. OTHER RECEIVABLES**

	2012	2011
	£	£
Prepayments and accrued income	4,503,822	6,722,424
Corporation tax recoverable	18,112	18,112
Amount owed from Mall Limited Partnership	<u>708</u>	<u>708</u>
	<u>4,522,642</u>	<u>6,741,244</u>

Included in prepayments and accrued income is accrued interest receivable of £4,494,773 (2011 £6,713,467)

**11. CASH AND CASH EQUIVALENTS**

	2012	2011
	£	£
Cash	<u>109,427</u>	<u>222,067</u>

Withdrawals from the company's bank account are restricted by the detailed priority of payments (see note 1)

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**12. EQUITY**

	Share capital £	Retained earnings £	Total £
Balance at 1 January 2012	12,502	(35,637,464)	(35,624,962)
Net profit attributable to equity holders	-	7,887,988	7,887,988
Balance at 31 December 2012	<u>12,502</u>	<u>(27,749,476)</u>	<u>(27,736,974)</u>

The company has one class of ordinary shares which carry no right to fixed income

There are 50,000 authorised ordinary shares of £1 each. The issued share capital comprises two fully paid £1 shares, and 49,998 ordinary shares quarter called up and paid. Wilmington Trust SP Services (London) Limited holds 49,999 shares under a declaration of trust for charitable purposes.

**13. INTEREST-BEARING LOANS AND BORROWINGS**

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings. For more information about the company's exposure to interest rate risk, see note 15.

	2012 £	2011 £
<b>Non-current liabilities</b>		
At start of the year	662,309,554	827,737,856
Notes redeemed in the year	<u>(91,442,875)</u>	<u>(165,428,302)</u>
	570,866,679	662,309,554
Discount	(281,625)	(281,625)
Amortisation of discount	262,912	249,937
Issue costs	(22,239,806)	(22,239,806)
Amortisation of issue costs	<u>19,064,762</u>	<u>16,863,295</u>
	<u>567,672,922</u>	<u>656,901,355</u>
<b>Current liabilities</b>		
Interest payable on loan notes	<u>1,321,245</u>	<u>2,064,714</u>
	<u>1,321,245</u>	<u>2,064,714</u>

The loan notes ('Notes') bear interest at a rate of 3-month LIBOR plus a margin of 18 basis points. Following the refinancing as disclosed in the Directors' Report, the margin increased to 0.68% from April 2011 and the Notes are now due for repayment by 22 April 2017 but can be redeemed early under certain circumstances as detailed in the Offering Circular. The Notes are limited recourse and are secured by way of a fixed and floating charge over the assets of the company. The proceeds of the notes were used by the company to make the loan to The Mall Limited Partnership in accordance with the terms of the securitisation documents.

As described in note 9 to the financial statements, the loan from the company to The Mall Limited Partnership is repayable in 22 April 2015. Under the terms of the loan Notes, any repayment of intercompany loan must be used to repay the Notes.

On 5 May 2005 an agreement was entered into with Barclays Bank PLC for the provision of a liquidity facility for the company. The facility is in place to allow the company to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage portfolio. At the balance sheet date, the limit on this facility was £39,579,685 (2011: £39,738,573). A fee is charged on the undrawn balance, currently set out at 0.18% per annum. Interest is charged at LIBOR plus 0.40% per annum on any drawn balance. No amounts have been drawn under the facility since inception. The liquidity facility is renewed annually.

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**13. INTEREST-BEARING LOANS AND BORROWINGS (continued)**

Interest-bearing loans and borrowings are repayable as follows

At 31 December 2012	Total £	6-12 months £	1-2 years £	2-5 years £	More than 5 years £
<b>Liabilities</b>					
Loan notes	567,672,922	-	-	567,672,922	-
Interest payable	<u>1,321,245</u>	<u>1,321,245</u>	-	-	-
	<u>568,994,167</u>	<u>1,321,245</u>	-	<u>567,672,922</u>	-
 At 31 December 2011	 Total £	 6-12 months £	 1-2 years £	 2-5 years £	 More than 5 years £
<b>Liabilities</b>					
Loan notes	656,901,355	-	-	656,901,355	-
Interest payable	<u>2,064,714</u>	<u>2,064,714</u>	-	-	-
	<u>658,966,069</u>	<u>2,064,714</u>	-	<u>656,901,355</u>	-

Loan Notes are held at amortised cost and are denominated in Sterling currency

**14. OTHER PAYABLES**

	2012 £	2011 £
<b>Current liabilities</b>		
Accruals	119,949	118,621
Deferred income	2,308,788	3,909,623
Accrued swap interest payable	<u>3,173,528</u>	<u>4,664,502</u>
	<u>5,602,265</u>	<u>8,692,746</u>

As part of the restructuring of the Notes in 2010 the company received £9,230,073 from The Mall Limited Partnership to fund the refinancing costs. This income has been deferred and amortised over the period to maturity of Inter-Company Loan. During the year, £2,330,156 (2011 £2,289,043) was recognised and included in 'Amortisation of issue costs reimbursed' disclosed in note 4 to the financial statements.

**15. FINANCIAL INSTRUMENTS**

The company's financial instruments comprise a loan to The Mall Limited Partnership, cash, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations.

**Credit risk**

Credit risk exists where the company is unable to collect money owed to it in full or on time. The main credit risk for the company relates to collection of amounts due under the loan to The Mall Limited Partnership and also to receipt of monies due under the interest rate swap transactions. The ability of The Mall Limited Partnership to repay the loan interest and principal is limited by the ability of The Mall Limited Partnership to collect monies owed to it from the underlying portfolio of shopping centres and its ability to ultimately realise the shopping centres for more than the loan balance. At 31 December 2012 the loan outstanding to The Mall Limited Partnership amounted to £570,866,679 (2011 £662,309,554) whilst the valuation of the underlying property portfolio amounted to £842,125,000 (2011 £957,621,000).

**Currency risk**

All of the company's assets and liabilities are denominated in Sterling therefore there is no foreign currency risk.

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**15. FINANCIAL INSTRUMENTS (continued)**

**Liquidity risk**

Liquidity risk exists where the company is unable to pay its liabilities as they fall due for payment due to insufficient cash. The company has entered into a liquidity facility agreement with Barclays Bank PLC which will be available, subject to certain criteria and circumstances, in the event that the company is unable, on a temporary basis, to meet its financial commitments.

At 31 December 2012 this facility was not required and has not been used during the period. The liquidity facility is renewed and reviewed annually. The facility was renewed on 26 March 2012.

**Interest rate risk**

Interest rate risk arises principally from changes in interest rates. The company has an interest rate risk in that the loan to The Mall Limited Partnership and the interest paid on the Notes are variable. The company has minimised this exposure by entering to interest rate swap and interest rate cap transactions with Credit Suisse First Boston International and with Lloyds TSB Bank Plc to manage the company's exposure to interest rate risk associated with the Notes. The costs related to these transactions are passed through to The Mall Limited Partnership.

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined on the company's exposure to interest rates for interest bearing assets and liabilities at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates and has been based on management's assessment of the possible changes in interest rates.

The Mall Funding plc is entitled to recover all costs from The Mall Limited Partnership. An increase/decrease in interest rate will impact the fair valuation of derivatives.

**Effective interest rates, repricing analysis and liquidity tables**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 31 December 2012 and the periods in which they reprice. The following tables also detail the company's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flow of financial liabilities based on earliest date on which the company can be required to pay. The table includes both interest and principal cash flow.

At 31 December 2012	Effective interest rate (%)	6 months		6-12 months	1-2 years	2-5 years	More than 5 years	Non interest bearing
		Total	or less					
		£	£	£	£	£	£	£
<b>Assets</b>								
Loan to originator	1.21	570,866,679	-	-	-	570,866,679	-	-
Other receivables	-	4,522,642	-	-	-	-	-	4,522,642
Cash	-	109,427	-	-	-	-	-	109,427
		<u>575,498,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>570,866,679</u>	<u>-</u>	<u>4,632,069</u>
<b>Unamortised loan issue costs and discount</b>								
	-	(884,969)	-	-	-	(884,969)	-	-
		<u>574,613,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>569,981,710</u>	<u>-</u>	<u>4,632,069</u>

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**15 FINANCIAL INSTRUMENTS (continued)**

**Effective interest rates, repricing analysis and liquidity tables (continued)**

At 31 December 2012	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Non interest bearing
	(%)	£	£	£	£	£	£	£
<b>Liabilities</b>								
Notes	1 21	570,866,679	-	-	-	570,866,679	-	-
Interest payable	-	1,321,245	-	-	-	-	-	1,321,245
Other payables	-	5,602,265	-	-	-	-	-	5,602,265
Derivative liability	-	37,005,761	-	-	-	-	-	37,005,761
		<u>614,795,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>570,866,679</u>	<u>-</u>	<u>43,929,271</u>
Unamortised loan issue costs and discount		(3,193,757)	-	-	-	(3,193,757)	-	-
		<u>611,602,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>567,672,922</u>	<u>-</u>	<u>43,929,271</u>

At 31 December 2011	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Non interest bearing
	(%)	£	£	£	£	£	£	£
<b>Assets</b>								
Loan to originator	1 57	662,309,554	-	-	-	662,309,554	-	-
Other receivables	-	6,741,244	-	-	-	-	-	6,741,244
Cash	-	222,067	-	-	-	-	-	222,067
		<u>669,272,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>662,309,554</u>	<u>-</u>	<u>6,963,311</u>
Unamortised loan issue costs and discount	-	(1,498,576)	-	-	-	(1,498,576)	-	-
		<u>667,774,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>660,810,978</u>	<u>-</u>	<u>6,963,311</u>

At 31 December 2011	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Non interest bearing
	(%)	£	£	£	£	£	£	£
<b>Liabilities</b>								
Notes	1 57	662,309,554	-	-	-	662,309,554	-	-
Interest payable	-	2,064,714	-	-	-	-	-	2,064,714
Other payables	-	8,692,746	-	-	-	-	-	8,692,746
Derivative liability	-	47,653,915	-	-	-	-	-	47,653,915
		<u>720,720,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>662,309,554</u>	<u>-</u>	<u>58,411,375</u>
Unamortised loan issue costs and discount	-	(5,408,199)	-	-	-	(5,408,199)	-	-
		<u>715,312,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>656,901,355</u>	<u>-</u>	<u>58,411,375</u>

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**15. FINANCIAL INSTRUMENTS (continued)**

**Fair values**

The fair values together with the carrying amounts shown in the balance sheet are as follows

	Notes	Carrying value 31 December 2012 £	Fair value 31 December 2012 £	Carrying value 31 December 2011 £	Fair value 31 December 2011 £
Loan to originator	9	570,866,679	578,278,711	662,309,554	595,383,916
Other receivables	10	4,522,642	4,522,642	6,741,244	6,741,244
Cash	11	109,427	109,427	222,067	222,067
Interest bearing loans and borrowings	13	(570,866,679)	(541,272,950)	(662,309,554)	(547,730,001)
Interest payable	13	(1,321,245)	(1,321,245)	(2,064,714)	(2,064,714)
Other payables	14	(5,602,265)	(5,602,265)	(8,692,746)	(8,692,746)
Derivative liability		<u>(37,005,761)</u>	<u>(37,005,761)</u>	<u>(47,653,915)</u>	<u>(47,653,915)</u>
		<u>(39,297,202)</u>	<u>(2,291,441)</u>	<u>(51,448,064)</u>	<u>(3,794,149)</u>
Total derivative liability			<u>37,005,761</u>		<u>47,653,915</u>

**Estimation of fair values**

The following comments summarise the main methods and assumptions used in estimating the fair value of financial instruments that are reflected in the table above

For cash, other receivables and other payables, no calculation of fair value is prepared as their carrying amount is viewed as a reasonable approximation of fair value

The company has two interest rate swaps that are traded and effective during the year with Credit Suisse First Boston International and Lloyds TSB Bank Plc with a total notional value of £570,866,679 (2011 £662,309,554), hedging interest on the floating rate loan notes. These are reflected as a derivative liability in the balance sheet of the company as at 31 December 2012. A valuation was carried out by JC Rathbone Associates at this date to calculate the market value of the interest rate swaps on a replacement basis. All inputs into valuation models, including the sterling zero coupon yield curve used as the discount rate on the swap, are obtained from observable market data. The change in fair value that has been estimated using this valuation technique, which has been recognised in the income statement for the year ended 31 December 2012, amounts to a gain of £10,648,154 (2011 £3,061,890 gain) valuing the derivative as a £37,005,761 derivative liability (2011 £47,653,915 derivative liability).

The loan notes, whilst listed on the Irish Stock Exchange, are not actively traded. As such the directors have obtained an estimated market value of the loan notes from Markit, a third party valuer, who have estimated a composite value of the loan notes from available market information. Based on this information, the loan notes have been estimated to have a fair value of £541,272,950 (2011 £547,730,001) compared to a book value of £570,866,679 (2011 £662,309,554) excluding discounts and issue costs.

The loan to originator, which is measured at amortised cost, does not have a readily ascertainable market value. However, the directors believe that the structure and nature of the economic relationship with The Mall Limited Partnership leads to the loan to originator being perfectly hedged with the loan notes, the interest rate swap and the interest rate caps. As such, the directors consider that the estimated fair value of the loan to originator is £578,278,711, reflecting the combined estimated fair value of the loan notes, interest rate swaps and interest rate caps.

**THE MALL FUNDING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**15 FINANCIAL INSTRUMENTS (continued)**

**Estimation of fair values (continued)**

There are a significant amount of assumptions and factors used in estimating fair values where items are not actively traded. As such the estimated fair values disclosed may fluctuate significantly from the value which may be realised in a sale situation.

**Fair value measurements recognised in the balance sheet**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£	£	£	£	£	£	£	£
<b>Liabilities</b>								
Derivative liability	-	<u>37,005,761</u>	-	<u>37,005,761</u>	-	<u>47,653,915</u>	-	<u>47,653,915</u>

There were no transfers between Level 1 and 2 in the period.

**16. RELATED PARTY TRANSACTIONS**

The company is a special purpose company controlled by its Board of Directors, which comprised three directors. Mr M H Filer and Mr D R Fisher, directors of the company, are also directors of Wilmington Trust SP Services (London) Limited. Under the terms of a corporate services agreement dated 5 May 2005, the company pays corporate services fees of £12,000 per annum and accountancy fees of £5,500 per annum to Wilmington Trust SP Services (London) Limited plus an additional fee of £2,000 for the preparation of accounts to 31 December 2012.

The fees payable for corporate services for the year amounted to £18,427 (2011 £16,912). At the end of the year, an amount of £1,049 (2011 £957) was included within other receivables, prepayments and accrued income.

At 31 December 2012, £570,866,679 (2011 £662,309,554) was still outstanding from The Mall Limited Partnership and included within the loan to originator. During the year, interest of £31,424,634 (2011 £40,392,865) was receivable on this loan and at 31 December 2012, £4,494,773 (2011 £6,713,467) was still outstanding and disclosed within other receivables, prepayments and accrued income.

**17. CONTROLLING PARTY**

The Mall Funding Plc is a company incorporated and registered in England and Wales.

The shares in the company are held by Wilmington Trust SP Services (London) Limited under a declaration of trust for charitable purposes. The directors consider there is no controlling party.

**18 SUBSEQUENT EVENTS**

There was a partial redemption of the loan notes on 22 April 2013 of £17,413,333.