

# **Business Mortgage Finance 3 PLC**

## **Annual Report and Financial Statements**

**Registered Number 05419479**

**Year Ended 30 November 2013**

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## Contents

	Page No
Company Information	2
Strategic Report	3
Report of the Directors	5
Statement of Directors' Responsibilities	6
Report of the Independent Auditor to the Members of Business Mortgage Finance 3 PLC	7
Profit and Loss Account	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Financial Statements	12

## **Company Information**

### **Directors**

J Bingham  
A Nehra  
M Schnaier

### **Company Secretary**

Sanne Group Secretaries (UK) Limited

### **Registered Office**

Sanne Group Secretaries (UK) Limited  
10 Cork Street  
London  
W1S 3NP

### **Trading Address**

The Vineries  
Broughton Hall Business Park  
Skipton  
North Yorkshire  
BD23 3AE

### **Solicitors**

Clifford Chance  
10 Upper Bank Street  
London  
E14 5JJ

### **Auditor**

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

### **Bankers**

Barclays Bank PLC  
One Churchill Place  
London  
E14 5HP

## Strategic Report

### Principal Activities

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

### Business Review

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

### Risk Management and Control

The Company seeks to manage the risks that arise from its activities. The risk framework in which the Company operates was documented in the Offering Circular together with an assessment of how the Company would mitigate the risks through the use of financial derivatives. (Copies of the Offering Circular document can be obtained by written request from the address in note 20).

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

On 5 January 2012 the Company drew down £15 million from the liquidity facility following a downgrade in the liquidity provider's ratings.

### Key Performance Indicators

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

The directors consider that there are no key performance indicators that govern the management of the Company as the activity of the Company is controlled primarily by the conditions set out in the Offering Circular when the bonds were issued.

### Future Developments

The continuing difficult financial conditions in both the UK economy and the global banking environment will put pressure on the Company's activities.

The directors believe that the Company will continue to meet the scheduled repayment dates for the loan notes during 2014 using cash generated from the mortgage portfolio which pays the intercompany loans.

### Financial Instruments

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

The Company has also entered into derivative transactions; an interest rate swap and a foreign currency swap, the purpose of which are to manage the interest rate risk and foreign currency arising from the Company's operations and funding.

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

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

#### *Credit Risk*

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. The ongoing credit risk of the portfolio is monitored by the directors on a monthly basis with particular focus on the arrears accounts.

## **Strategic Report** *(continued)*

### **Financial Instruments** *(continued)*

#### *Interest Rate Risk*

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

#### *Liquidity Risk*

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

#### *Foreign Currency Risk*

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

#### *Operational Risk*

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

By order of the board



A Nehra  
Director

Date: 27 May 2014

## Report of the Directors

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

### Results and Dividend

The profit for the financial year amounted to £103,000 (2012: £216,000 loss). The directors do not recommend the payment of a dividend (2012: nil).

### Directors

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

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

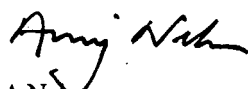
### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditor

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

By order of the board



A Nehra  
Director

Date: 27 May 2014

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

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## **KPMG Audit Plc**

1 The Embankment  
Neville Street  
Leeds  
LS1 4DW  
United Kingdom

### **Report of the Independent Auditor to the Members of Business Mortgage Finance 3 PLC**

We have audited the financial statements of Business Mortgage Finance 3 PLC for the year ended 30 November 2013 set out on pages 9 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

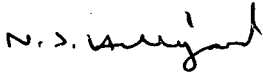


## **Report of the Independent Auditor to the Members of Business Mortgage Finance 3 PLC (*continued*).**

### **Matters on which we are required to report by exception**

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

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



.....  
**James Hillyard (Senior Statutory Auditor)**

**For and on behalf of KPMG Audit Plc, Statutory Auditor**  
*Chartered Accountants*

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

Date 27 May 2014

## Profit and Loss Account

For the year ended 30 November 2013

	Note	2013 £000	2012 £000
Interest receivable and similar income	2	2,529	3,058
Interest payable and similar charges	3	(2,289)	(2,861)
<b>Net interest income</b>		<b>238</b>	<b>197</b>
Fair value movements	4	121	(295)
Operating expenses		(232)	(192)
<b>Profit / (loss) on ordinary activities before taxation</b>	5	<b>127</b>	<b>(290)</b>
Tax on profit / (loss) on ordinary activities	6	(24)	74
<b>Profit / (loss) for the financial year</b>	11	<b>121</b>	<b>(216)</b>

There are no recognised gains and losses other than the profit/(loss) for the year shown above; accordingly no statement of recognised gains or losses is required.

The results all arise from continuing operations.

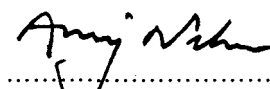
The notes on pages 12 to 25 form part of these financial statements.

**Balance Sheet**  
*At 30 November 2013*

	<i>Note</i>	<b>2013</b> <b>£000</b>	<b>2013</b> <b>£000</b>	<b>2012</b> <b>£000</b>	<b>2012</b> <b>£000</b>
<b>Fixed assets</b>					
Securitised assets	8		47,281		57,071
<b>Current assets</b>					
Debtors	9	1,385		1,638	
Cash at bank and in hand		26,664		24,999	
			<b>28,049</b>		<b>26,637</b>
<b>Total assets</b>			<b>75,330</b>		<b>83,708</b>
<b>Capital and reserves</b>					
Called up share capital	10	13		13	
Profit and loss account	11	216		113	
<b>Shareholders' funds</b>			<b>229</b>		<b>126</b>
<b>Creditors: amounts falling due within one year</b>	12		<b>793</b>		<b>225</b>
<b>Creditors: amounts falling due after one year</b>	13		<b>74,308</b>		<b>83,357</b>
<b>Total equity and liabilities</b>			<b>75,330</b>		<b>83,708</b>

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

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

  
A Nelson  
Director

Company Number: 05419479

**Cash Flow Statement**  
*for the year to 30 November 2013*

	<i>Note</i>	<b>2013</b>	<b>2012</b>
		<b>£000</b>	<b>£000</b>
Net cash inflow from operating activities	17	1,665	13,991
Increase in cash in the year		1,665	13,991

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

## Notes to the Financial Statements

### 1 Accounting policies

#### *Basis of preparation*

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

The following accounting policies have been applied in dealing with items which are considered material in relation to the Company's financial statements.

#### *Going concern*

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

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

#### *Interest income and expense*

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

#### *Classification of financial instruments*

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

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

And each financial liability into one of two categories:

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

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

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

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

## Notes to the Financial Statements (*continued*)

### 1 Accounting policies (*continued*)

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

#### *Floating Rate Notes*

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

#### *Foreign currencies*

Foreign currency transactions, assets and liabilities are accounted for in accordance with FRS 21 "The Effects of Changes in Foreign Exchange Rates". The functional currency of the Company is pounds sterling. Transactions which are not in pounds sterling are translated at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not in pounds sterling incurred in arranging funding facilities are amortised over the year of the facility. Funding costs amortised during the year are included in interest payable.

#### *Taxation*

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

#### *Derivatives*

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

### 2 Interest receivable and similar income

	2013 £000	2012 £000
On Securitised assets	2,497	2,941
Bank interest	32	117
	<u>2,529</u>	<u>3,058</u>

## Notes to the Financial Statements *(continued)*

### 3 Interest payable and similar charges

	2013 £000	2012 £000
On loans repayable after five years:		
Mortgage backed loan notes	1,995	2,580
Interest on subordinated loan	294	281
	<u>2,289</u>	<u>2,861</u>

### 4 Fair value movements

	2013 £000	2012 £000
Derivative losses	(253)	(1,570)
Exchange rate gains	374	1,275
	<u>121</u>	<u>(295)</u>

### 5 Profit / (loss) on ordinary activities before taxation

	2013 £000	2012 £000
<i>Profit / (loss) on ordinary activities before taxation is stated after charging:</i>		
Auditor's remuneration – statutory audit	3	3
	<u>3</u>	<u>3</u>

## Notes to the Financial Statements *(continued)*

### 6 Taxation

Analysis of tax charge / (credit) in the year:

	2013 £000	2012 £000
<i>UK corporation tax</i>		
Corporation tax payable	1	-
Group relief payable	-	1
	<hr/>	<hr/>
Total current tax	1	1
Deferred tax –short term timing differences	24	(68)
Effect of change of tax rate	(1)	(7)
	<hr/>	<hr/>
Total deferred tax	23	(75)
	<hr/>	<hr/>
Tax on profit / (loss) on ordinary activities	24	(74)
	<hr/>	<hr/>

*Factors affecting taxation for the current year are as follows:*

	2013 £000	2012 £000
<i>Current tax reconciliation</i>		
Profit / (loss) on ordinary activities before tax	127	(290)
	<hr/>	<hr/>
Current tax at 23.33% (2012: 24.66%)	29	(72)
<i>Effect of:</i>		
Short term timing differences	(28)	73
	<hr/>	<hr/>
Total current tax charge (see above)	1	1
	<hr/>	<hr/>

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

### 7 Deferred Tax

The elements of deferred tax are as follows:

Recognised	2013 £000	2012 £000
Opening deferred tax liability	(12)	(87)
Effect of change of tax rate on opening balance	1	7
Movement in the year due to short term timing differences	(24)	68
	<hr/>	<hr/>
Closing deferred tax liability	(35)	(12)
	<hr/>	<hr/>



## Notes to the Financial Statements *(continued)*

### 8 Securitised assets

The Company purchased a portfolio of mortgages in 2005 from Commercial First DAC Limited; however, as the principal risk and rewards of these mortgages were retained by Commercial First DAC Limited, these are not deemed for accounting purposes to have transferred to the Company. Accordingly, the Company accounts for the transaction as an intercompany loan, reported as a 'Loan to Originator'.

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

The Securitised asset is denominated in sterling and bears interest at a variable rate. It is secured on the beneficial interest in a portfolio of commercial mortgage loans.

### 9 Debtors

	2013 £000	2012 £000
Derivative assets-interest rate swap	1,385	1,638
	<u>1,385</u>	<u>1,638</u>

### 10 Called up share capital

	2013 £	2012 £
<i>Allotted and called up</i>		
2 Ordinary shares of £1.00 each – fully paid	2	2
49,998 Ordinary shares of £1.00 each – 25% paid	12,500	12,500
	<u>12,502</u>	<u>12,502</u>

## Notes to the Financial Statements *(continued)*

### 11 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	Total £000
At 1 December 2012	13	113	126
Retained Profit for the year	-	103	103
	<hr/>	<hr/>	<hr/>
At 30 November 2013	13	216	229
	<hr/>	<hr/>	<hr/>

### 12 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Corporation tax payable	1	-
Group relief payable	-	1
Loan notes – accrued interest	703	199
Interest on liquidity facility	5	5
Accruals and deferred income	49	8
Deferred tax ( <i>note 7</i> )	35	12
	<hr/>	<hr/>
	793	225
	<hr/>	<hr/>

## Notes to the Financial Statements (continued)

### 13 Creditors: amounts falling due after one year

	2013 £000	2012 £000
Mortgage backed loan notes due 2038	62,127	69,730
Liquidity facility	12,181	13,627
	<u>74,308</u>	<u>83,357</u>

All amounts falling due after more than one year fall due after more than five years, other than deferred consideration (included as part of the return on the Securitised assets), the payment of which is uncertain, but is unlikely to fall due within one year.

The loan notes are secured over a portfolio of commercial mortgage loans secured by first charges on commercial property in the United Kingdom. The mortgages were purchased from Commercial First DAC Limited and Ilford Funding Limited and are administered by a third party on behalf of the Company, although as noted previously, for accounting purposes are not recognised on the Company's balance sheet.

The loan notes are subject to mandatory redemption at each interest repayment date. The amount redeemed is equal to the principal collected on the mortgage loans in the preceding collection year. The loan notes will become due and payable on the interest payment date falling in August 2038 if they have not been redeemed or cancelled beforehand.

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

	Value at 01 December 2012 £	Redemption £	Exchange rate movements £	Value at 30 November 2013 £	Up to 15 August 2012 £	After 15 August 2012
Class A1	4,742,148	(4,213,595)	-	528,553	LIBOR + 0.27%	LIBOR + 0.54%
Class A2	3,995,883	(3,015,146)	(525,044)	455,693	EURIBOR + 0.27%	EURIBOR + 0.54%
Class M	42,500,000	-	-	42,500,000	LIBOR + 0.70%	LIBOR + 1.40%
Class B1	9,500,000	-	-	9,500,000	LIBOR + 2.65%	LIBOR + 3.65%
Class B2	6,491,926	-	150,386	6,642,312	EURIBOR + 2.50%	EURIBOR + 3.50%
Class C	2,500,000	-	-	2,500,000	LIBOR + 3.70%	LIBOR + 4.70%
	<u>69,729,957</u>	<u>(7,228,741)</u>	<u>(374,658)</u>	<u>62,126,558</u>		

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

- Interest only coupons which entitle the holders to an interest rate of 2.75% based on the outstanding principal of the Class A1 and Class A2 notes.
- Mortgage Early Redemption Certificates which entitle the holder to any early redemption charges collected in the year on the underlying mortgages.

The subordinated loan at the initial issue was £7,282,425, and has been reduced to £6,214,679 at 30 November 2013 (2012 - £5,920,245). It bears interest at LIBOR plus 4% and is subordinated to the loan notes.

## Notes to the Financial Statements (continued)

### 14 Contingent liabilities

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

### 15 Financial instruments

#### Fair Value disclosures

#### Categories of financial assets and financial liabilities: carrying value compared to fair value

#### 2013

	Assets at fair value through profit or loss on initial recognition £000	Loans and receivables £000	Total carrying value £000	Fair value £000	If fair values increased by 1% £000
<b>Financial assets:</b>					
Securitised assets	-	47,281	47,281	47,281	473
Cash at bank and in hand	-	26,664	26,664	26,664	266
Derivative financial asset	1,385	-	1,385	1,385	14
<b>Total financial assets</b>	<b>1,385</b>	<b>73,945</b>	<b>75,330</b>	<b>75,330</b>	<b>753</b>
<b>Financial liabilities:</b>					
Liquidity facility	-	12,181	12,181	12,181	122
Mortgage backed loan notes due 2038	-	62,127	62,127	60,090	601
<b>Total financial liabilities</b>	<b>-</b>	<b>74,308</b>	<b>74,308</b>	<b>72,271</b>	<b>723</b>

#### 2012

	Assets at fair value through profit or loss on initial recognition £000	Loans and receivables £000	Total carrying value £000	Fair value £000	If fair values increased by 1% £000
<b>Financial assets:</b>					
Securitised assets	-	57,071	57,071	57,071	571
Cash at bank and in hand	-	24,999	24,999	24,999	250
Derivative financial asset	1,638	-	1,638	1,638	16
<b>Total financial assets</b>	<b>1,638</b>	<b>82,070</b>	<b>83,708</b>	<b>83,708</b>	<b>837</b>
<b>Financial liabilities:</b>					
Liquidity facility	-	13,627	13,627	13,627	136
Mortgage backed loan notes due 2038	-	69,730	69,730	69,730	697
<b>Total financial liabilities</b>	<b>-</b>	<b>83,357</b>	<b>83,357</b>	<b>83,357</b>	<b>833</b>

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

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

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

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

## Notes to the Financial Statements *(continued)*

### 15 Financial instruments *(continued)*

#### Fair Value disclosures *(continued)*

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

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

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

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

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

2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets:</b>				
Derivative financial instrument	-	1,385	-	1,385
Gross financial assets	-	1,385	-	1,385
<b>Financial liabilities:</b>				
Derivative financial instruments	-	-	-	-
Gross financial liabilities	-	-	-	-
 2012	 Level 1 £000	 Level 2 £000	 Level 3 £000	 Total £000
<b>Financial assets:</b>				
Derivative financial instrument	-	1,638	-	1,638
Gross financial assets	-	1,638	-	1,638
<b>Financial liabilities:</b>				
Derivative financial instruments	-	-	-	-
Gross financial liabilities	-	-	-	-

#### Nature and extent of risks arising from financial instruments

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

##### *Credit Risk*

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

## Notes to the Financial Statements (continued)

### 15 Financial instruments (continued)

#### Interest Rate Risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

#### Liquidity Risk

The Company's policy is to manage liquidity risk by matching the timing of cash receipts from assets with those of the cash payments due on the Floating Rate Notes.

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

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

2013

	On demand	In not more than three months	In more than three months but not more than one year	In more than one year but not more than five years	Total
	£000	£000	£000	£000	£000
At 30 November 2013 Mortgage backed loan notes due 2038	-	1,070	3,211	17,125	21,406
<b>Total</b>	<b>-</b>	<b>1,070</b>	<b>3,211</b>	<b>17,125</b>	<b>21,406</b>

2012

	On demand	In not more than three months	In more than three months but not more than one year	In more than one year but not more than five years	Total
	£000	£000	£000	£000	£000
At 30 November 2012 Mortgage backed loan notes due 2038	-	902	2,397	19,500	22,799
<b>Total</b>	<b>-</b>	<b>902</b>	<b>2,397</b>	<b>19,500</b>	<b>22,799</b>

#### Foreign Currency Risk

Foreign currency risk exists where assets and liabilities are denominated in different currencies. The Company, as part of the securitisation programme have issued Euro denominated Floating Rate Notes during the year.

The Company's policy is to manage foreign currency risk by entering into currency swaps that match all future liabilities in foreign currencies that hedge against any movement in exchange rates.

## Notes to the Financial Statements (continued)

### 15 Financial instruments (continued)

#### Risk Sensitivity

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. To minimise exposure to interest rate risk the Company ensures that the interest rate profiles of the loans to the group undertakings and of the interest bearing loans and borrowings are similar. Where this is not possible derivative financial instruments are also used to reduce any residual interest rate risk. If LIBOR for three months sterling deposits were 1% higher or lower, with all other variables held constant, the effect on the Company's net interest income would be immaterial due to movements on interest on the loan to group undertakings being offset by movements on interest on the loan notes. This would also apply if EURIBOR for three months was 1% higher or lower, with all other variables held constant, as movements in interest on foreign currency loan notes would be offset by a corresponding movement in interest on the currency swaps and on loans to group undertakings. A change in interest rates would also affect the fair value movement in the profit and loss as a result of the derivative being marked to market. These fair value changes are expected to reverse to zero over the lives of the derivatives.

#### Interest rate risk

The table below summarises the interest rate profile of the company's financial instruments. The analysis excludes short term debtors and creditors.

#### 2013

	Floating £000	Non interest bearing £000	Total £000
<b>Financial assets:</b>			
Securitised assets	47,281	-	47,281
Cash at bank and in hand	26,664	-	26,664
Derivative asset	-	1,385	1,385
Gross financial assets	73,945	1,385	75,330
<b>Financial liabilities:</b>			
Liquidity facility	12,181	-	12,181
Mortgage backed loan notes due 2038	62,127	-	62,127
Gross financial liabilities	74,308	-	74,308

#### 2012

	Floating £000	Non interest bearing £000	Total £000
<b>Financial assets:</b>			
Securitised assets	57,071	-	57,071
Cash at bank and in hand	24,999	-	24,999
Derivative asset	-	1,638	1,638
Gross financial assets	82,070	1,638	83,708
<b>Financial liabilities:</b>			
Liquidity facility	13,627	-	13,627
Mortgage backed loan notes due 2038	69,730	-	69,730
Gross financial liabilities	83,357	-	83,357

## Notes to the Financial Statements *(continued)*

### 15. Financial instruments *(Continued)*

#### Maturity profile

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

#### 2013

	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	5+ years £000
<b>Financial assets:</b>					
Securitised assets	-	-	-	-	47,281
Cash at bank and in hand	26,664	-	-	-	-
Derivative asset	-	-	-	-	1,385
Gross financial assets	26,664	-	-	-	48,666
<b>Financial liabilities:</b>					
Liquidity facility	-	-	-	-	12,181
Mortgage backed loan notes due 2038	-	-	-	-	62,127
Gross financial liabilities	-	-	-	-	74,308

#### 2012

	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	5+ years £000
<b>Financial assets:</b>					
Securitised assets	-	-	-	-	57,071
Cash at bank and in hand	24,999	-	-	-	-
Derivative asset	-	-	-	-	1,638
Gross financial assets	24,999	-	-	-	58,710
<b>Financial liabilities:</b>					
Liquidity facility	-	-	-	-	13,627
Mortgage backed loan notes due 2038	-	-	-	-	70,453
Gross financial liabilities	-	-	-	-	83,357

#### Concentration of risk

The Company operates entirely within the United Kingdom and adverse changes to the UK economy could impact on all areas of the Company's business. The securitised assets are a portfolio of mortgage loans secured on commercial property in England, Scotland and Wales.



## Notes to the Financial Statements *(continued)*

### 16 Related party transactions

The Company is a special purpose vehicle controlled by the directors. There are three directors, two of which are provided by Sanne Group Secretaries (UK) Limited. The Company has paid a fee of £4,800 (2012: £4,840) to Sanne Group Secretaries (UK) Limited for the provision of the two directors. The third director is provided by Commercial First Mortgages Limited - the special service provider.

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

	2013 £000	2012, £000
<b>Interest Receivable and similar income</b>		
Interest on Securitised assets	2,497	2,941
<b>Interest Payable and similar charges</b>		
Interest on mortgage backed loan notes	350	350
Interest on subordinated loan	294	281

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

	2013 £000	2012 £000
Operating profit / (loss)	127	(290)
Movement in other creditors	39	6
Movement in accrued interest on loan notes and liquidity facility	504	138
Movement in derivative financial instruments	(121)	295
Cash flows from operating activities before changes in operating assets and liabilities	549	149
Movement in securitised assets	9,790	7,159
Movement in liquidity facility	(1,446)	13,627
Movement in loan notes	(7,228)	(6,944)
<b>Net cash inflow from operating activities</b>	<b>1,665</b>	<b>13,991</b>

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

	At beginning of year £000	Cash flow £000	At end of year £000
Cash at bank and in hand	24,999	1,665	26,664
<b>Total</b>	<b>24,999</b>	<b>1,665</b>	<b>26,664</b>

**19 Ultimate parent company**

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