

Business Mortgage Finance 7 PLC

Directors' Report and Financial Statements

Registered Number 06252784

Year Ended 30 November 2012

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Contents

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

Company Information

Directors

A Iqbal
A Nehra
N Scott

Company Secretary

State Street Secretaries (UK) Limited

Registered Office

20 Churchill Place
Canary Wharf
London
E14 5HJ

Trading Address

Lutea House
Warley Hill Business Park
The Drive, Great Warley
Brentwood
Essex
CM13 3BE

Solicitors

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

Auditor

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

Bankers

Barclays Bank PLC
One Churchill Place
London
E14 5HP

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 30 November 2012

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 17)

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. However the cash reserve has now been extinguished which has increased the liquidity risk.

On 5 January 2012 the Company drew down £25 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.

Results and Dividend

The loss for the financial year amounted to £10,740,000 (2011: £17,631,000). The main driver of the loss for the year was the provision against the loan to the originator as explained in note 8.

The directors do not recommend the payment of a dividend (2011: nil).

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 whilst currently the liabilities of the Company exceed the assets, the payment of the liabilities of the Company is principally governed by the cash generated by the mortgage portfolio, the cash flows from which remain strong. The directors are comfortable that with the available liquidity facility, the Company will continue to meet the sums due and payable on the loan notes in accordance with the offering circular.

Report of the Directors (*continued*)

Financial Instruments

The financial instruments held by the Company are made up of loans to group undertakings, 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, liquidity risk, foreign currency risk and operational risk. The directors' review of and policies for, managing each of the risks are summarised below

Credit Risk

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

Interest Rate Risk

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

Liquidity Risk

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

Foreign Currency Risk

Foreign currency risk exists where assets and liabilities are denominated in different currencies. The Company, as part of the securitisation programme have issued Euro denominated Floating Rate Notes. 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 part of its administration activities to an unconnected third party. The risk associated with this arrangement is controlled by a Service Level Agreement, performance against which is monitored on a regular basis.

Policy and Practice on Payment of Creditors

Creditors are paid in accordance with the requirement set out in the offering circular.

Political & Charitable Donations

The Company made no political contributions or charitable donations during the year (2011: nil).

Report of the Directors (*continued*)

Directors

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

	Date of appointment	Date of resignation
J C Bingham		10/08/2012
V M Rapley		31/01/2012
A Iqbal	10/08/2012	
A Nehra		
N Scott	31/01/2012	

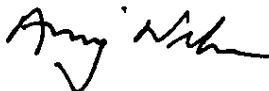
Disclosure of information to auditor

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

A resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting

By order of the board



A Nehra

Director

Date 31 January 2013

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

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

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

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 7 PLC

We have audited the financial statements of Business Mortgage Finance 7 PLC for the year to 30 November 2012 set out on pages 9 to 23. 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 November 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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 7 PLC (continued)

Matters on which we are required to report by exception

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

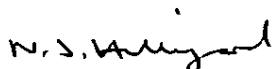
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law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

Emphasis of matter: going concern

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

At 30 November 2012 the Company's total liabilities exceeded its total assets by £28.2m. The payment of interest and principal on finance issued by the Company is principally dependent on the performance of its pool of mortgages. Conditions in the UK commercial mortgage market remained challenging during 2012. If conditions continue to deteriorate and an event of default occurs which the security trustee believes is materially prejudicial to the note holders then the security trustee may, at its discretion, choose to issue an enforcement notice to the Company.

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



N J 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 31 January 2013

Profit and Loss Account
For the year to 30 November 2012

	<i>Note</i>	2012 £000	2011 £000
Interest receivable and similar income	2	8,563	8,962
Interest payable and similar charges	3	(8,302)	(8,651)
Net interest income		261	311
Fair value movements in financial instruments	4	(462)	55
Loan to originator impairment	8	(10,241)	(17,699)
Operating expenses		(353)	(286)
Loss on ordinary activities before taxation	5	(10,795)	(17,619)
Tax on loss on ordinary activities	6	55	(12)
Loss for the financial year	11	(10,740)	(17,631)

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

The results all arise from continuing operations

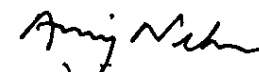
The notes on pages 11 to 23 form part of these financial statements

Balance Sheet
At 30 November 2012

	<i>Note</i>	2012 £000	2012 £000	2011 £000	2011 £000
Fixed assets					
Loan to Originator	8		148,897		172,707
Current assets					
Debtors	9	553		861	
Cash at bank and in hand		28,571		5,639	
			29,124		6,500
Total assets			178,021		179,207
Capital and reserves					
Called up share capital	10	13		13	
Profit and loss account	11	(28,239)		(17,499)	
Shareholders' deficits			(28,226)		(17,486)
Creditors: amounts falling due within one year	12		290		300
Creditors: amounts falling due after one year	13		205,957		196,393
Total equity and liabilities			178,021		179,207

The notes on pages 11 to 23 form part of these financial statements

These financial statements were approved by the board of directors on 31 January 2013 and were signed on its behalf by



A Nehra
 Director

Company Number: 06252784

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 which except derivative financial instruments are carried at their fair value

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

Going concern

Notwithstanding net liabilities of £28.2m as at 30 November 2012, the directors consider that the Company will continue to trade for the foreseeable future by meeting its liabilities as they fall due for payment in cash and, accordingly, the financial statements have been prepared on a going concern basis

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. The payment of interest and principal on finance issued by the Company is principally dependent on the performance of its pool of mortgages. Conditions in the UK commercial mortgage market remained challenging during 2012. Future deterioration in the commercial mortgage market could result in future estimated cash flows received from the Company's assets being significantly less than expected and affect the Company's ability to repay its creditors.

In addition to the cash generated by the portfolio itself, additional facilities exist through a liquidity facility, in the year to 30 November 2012 the cash generated by the portfolio has been sufficient not to utilise the liquidity facility. However, following a downgrade of the liquidity facility provider, the company was required to draw down in full the available liquidity facility of £25 million. Taking all these factors into account, the directors consider that the Company will be able to pay any interest actually due in cash over the next 12 months based on current expectations of the mortgage portfolio.

However, if conditions continue to deteriorate and an event of default occurs which the security trustee believes is materially prejudicial to the note holders then the security trustee may, at its discretion, choose to issue an enforcement notice to the Company. The directors consider this unlikely in the next 12 months and, therefore, believe it remains appropriate to prepare the financial statements on a going concern basis. However, they believe these matters represent a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. It may, therefore, be unable to continue realising its assets and discharging its liabilities in the normal course of business.

Cash flow statement

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement, on the grounds that it is a wholly owned subsidiary undertaking and its cash flows appear in a consolidated cash flow statement in the financial statements of the ultimate parent company.

Interest income and expense

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

Notes to the Financial Statements (*continued*)

1 Accounting policies (*continued*)

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 uncollectible.

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.

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 as "fair value movements in financial instruments".

Floating Rate Notes

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

Foreign currencies

Foreign currency transactions, assets and liabilities are accounted for in accordance with FRS 23 "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 period 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 in financial instruments".

Notes to the Financial Statements *(continued)*

2 Interest receivable and similar income

	2012 £000	2011 £000
On Loan to Originator	8,416	8,925
Bank interest	147	37
	<u>8,563</u>	<u>8,962</u>

3 Interest payable and similar charges

	2012 £000	2011 £000
On loans repayable after five years		
Mortgage backed loan notes	7,477	7,307
Interest on subordinated loan	822	783
Amortisation of start up costs	-	557
Other interest	3	4
	<u>8,302</u>	<u>8,651</u>

4 Fair value movements in financial instruments

	2012 £000	2011 £000
Derivative (losses) / gains	(684)	140
Foreign exchange rate gains / (losses)	222	(85)
	<u>(462)</u>	<u>55</u>

5 Loss on ordinary activities before taxation

	2012 £000	2011 £000
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditor's remuneration – Statutory audit	3	3
	<u>3</u>	<u>3</u>

Notes to the Financial Statements (*continued*)

6 Taxation

	2012 £000	2011 £000
Analysis of charge in year		
<i>UK corporation tax</i>		
Current tax charge	-	-
Prior year adjustment	(16)	-
Total current tax on income for the year	(16)	-
Prior year adjustment	(39)	-
Effect of change of tax rate	-	(2)
Deferred tax short term movement on derivatives	-	14
Total deferred tax (see note 7)	(39)	12
Tax on loss on ordinary activities	(55)	12

Factors affecting taxation for the current year are as follows

	2012 £000	2011 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(10,795)	(17,619)
Current tax at 24.66% (2011: 26.66%)	(2,663)	(4,698)
<i>Effect of</i>		
Short term timing differences	-	(15)
Prior year adjustment	(16)	-
Difference between accounting and taxation of Securitisation Companies (Regulation 2006/SI 3296)	2,663	-
Unrelieved tax losses	-	4,713
Total current tax charge (see above)	(16)	-

Notes to the Financial Statements *(continued)*

7 Deferred Taxation

The elements of deferred taxation are as follows

Recognised	2012 £000	2011 £000
Deferred tax liability on loss from movement in derivative financial instruments		
Opening deferred tax balance	(39)	(27)
Effect of change of tax rate on opening balance	-	2
Prior year adjustment	39	-
Movement in the year due to short term timing differences	-	(14)
	<hr/>	<hr/>
Closing deferred tax balance	-	(39)
	<hr/>	<hr/>

8 Loan to Originator

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

The loan to Commercial First DAC Limited is a composite balance of the mortgage assets, provisions on the mortgages, subordinated debt and deferred consideration. Deferred consideration is calculated as the excess of the value of the mortgage assets over the liabilities of the transaction. The current level of specific provision on the mortgage assets has caused there to be a current deficit on the deferred consideration ledger. Although this deficit is temporary and is anticipated to reverse over time, there is uncertainty over the amount of time it will take to unwind, and therefore the directors believe it is prudent to provide for the deferred consideration component as an impairment to the loan to the originator.

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

9 Debtors

	2012 £000	2011 £000
Financial instrument derivatives – interest rate swap	551	861
Other debtors	2	-
	<hr/>	<hr/>
	553	861
	<hr/>	<hr/>

Notes to the Financial Statements (continued)

10 Called up share capital

	2012 £	2011 £
<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>

11 Reconciliation of movements in shareholders' deficits

	Share capital £000	Profit and loss account £000	Total £000
At 1 December 2011	13	(17,499)	(17,486)
Retained loss for the year	-	(10,740)	(10,740)
At 30 November 2012	<u>13</u>	<u>(28,239)</u>	<u>(28,226)</u>

12 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Loan notes – accrued interest	275	230
Other creditors	16	31
Deferred tax (note 7)	-	39
	<u>290</u>	<u>300</u>

13 Creditors: amounts falling due after one year

	2012 £000	2011 £000
Mortgage backed loan notes due 2041	180,559	196,370
Liquidity facility	25,000	-
Financial instrument derivatives		
Interest rate swaps	398	23
	<u>205,957</u>	<u>196,393</u>

Notes to the Financial Statements (*continued*)

13 Creditors: amounts falling due after one year (*continued*)

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 Loan to Originator), the payment of which is uncertain, but is likely to fall due within one year

The loan notes are secured over a portfolio of commercial mortgage loans secured by first charges on commercial property in the United Kingdom

The mortgages were purchased from Commercial First DAC Limited and are administered by a third party on behalf of the Company, although as noted previously, for accounting purposes are not recognised on the Company's balance sheet

The loan notes are subject to mandatory redemption at each interest repayment date. The amount redeemed is equal to the principal collected on the mortgage loans in the preceding collection period. The loan notes will become due and payable on the interest payment date falling in August 2040 if they have not been redeemed or cancelled beforehand.

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

	Value at 30 November 2011	Redemption	Exchange rate movements	Value at 30 November 2012	Up to 15 November 2012	After 15 November 2012
	£	£	£	£	£	£
Class A1	133,190,785	(15,589,716)	-	117,601,069	LIBOR + 1.00%	LIBOR + 2.00%
Class M1	38,650,000	-	-	38,650,000	LIBOR + 2.25%	LIBOR + 4.50%
Class M2	4,279,500	-	(222,046)	4,057,454	EURIBOR + 2.25%	EURIBOR + 4.50%
Class B1	12,375,000	-	-	12,375,000	LIBOR + 5.25%	EURIBOR + 6.25%
Class C	7,875,000	-	-	7,875,000	LIBOR + 8.50%	LIBOR + 9.50%
	<u>196,370,285</u>	<u>(15,589,716)</u>	<u>(222,046)</u>	<u>180,558,523</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 1.50% based on the outstanding principal of the Class A1 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 £12,455,000 and has risen to £17,629,160 at 30 November 2012. It bears interest at LIBOR plus 4% and is subordinated to the loan notes.

14 Contingent liabilities

The Company has no contingent liabilities as at 30 November 2012 (30 November 2011: nil)

Notes to the Financial Statements (continued)

15 Financial instruments

Fair Value disclosures

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

2012

	Assets at fair value through profit or loss – on initial recognition	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000	£000
Financial assets					
Loan to Originator	-	148,897	148,897	148,897	1,489
Cash at bank and in hand	-	28,571	28,571	28,571	286
Derivative financial asset	551	-	551	551	6
Total financial assets	551	177,468	178,019	178,019	1,781
Financial liabilities					
Liquidity facility	-	25,000	25,000	25,000	250
Mortgage backed loan notes due 2041	-	180,559	180,559	105,366	1,054
Derivative financial liability	398	-	398	398	4
Total financial liabilities	398	205,559	205,957	130,674	1,308

2011

	Assets at fair value through profit or loss – on initial recognition	Loans and receivables	Total carrying value	Fair value	If fair values increased by 1%
	£000	£000	£000	£000	£000
Financial assets					
Loan to Originator	-	172,707	172,707	172,707	1,727
Cash at bank and in hand	-	5,639	5,639	5,639	56
Derivative financial asset	861	-	861	861	9
Total financial assets	861	178,346	179,207	179,207	1,792
Financial liabilities					
Mortgage backed loan notes due 2041	-	196,370	196,370	119,813	1,198
Derivative financial liability	23	-	23	23	-
Total financial liabilities	23	196,370	196,393	119,836	1,198

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

The fair value of Loan to Originator 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 is their calculated trading price

The fair value of the financial derivatives is their carrying value

Notes to the Financial Statements (continued)

15 Financial instruments (continued)

Fair Value disclosures

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

2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Derivative financial instrument	-	551	-	551
Gross financial assets	-	551	-	551
Financial liabilities				
Derivative financial instruments	-	398	-	398
Gross financial liabilities	-	398	-	398
 2011	 Level 1 £000	 Level 2 £000	 Level 3 £000	 Total £000
Financial assets				
Derivative financial instrument	-	860	-	860
Gross financial assets	-	860	-	860
 Financial liabilities				
Derivative financial instruments	-	23	-	23
Gross financial liabilities	-	23	-	23

Nature and extent of risks arising from financial instruments

The main financial risks arising from the Company's activities are credit risk, liquidity risk, currency risk and interest rate risk. Financial instruments used by the Company for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principle derivative instruments used by the Company in managing its risks are interest rate swaps 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 loan from the Originator, derivative counterparties and deposits held by banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Interest Rate Risk

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

Notes to the Financial Statements *(continued)*

15 Financial instruments *(continued)*

Liquidity Risk

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

There is a liquidity facility provided by Barclays Bank PLC which has been fully drawn and can be utilised in certain circumstances where the Company is unable to meet certain financial commitments. 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

	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 2041	-	5,925	13,488	47,072	66,485
Total	-	5,925	13,488	47,072	66,485

	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 2011					
Mortgage backed loan notes due 2041	-	5,568	22,903	122,598	151,069
Total	-	5,568	22,903	122,598	151,069

Foreign Currency Risk

Foreign currency risk exists where assets and liabilities are denominated in different currencies. The Company, as part of the securitisation programme has 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 effect the fair value movement in the profit and loss account 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.

2012	Floating £000	Non interest bearing £000	Total £000
Financial assets			
Loan to Originator	148,897	-	148,897
Derivative asset	-	551	551
Cash at bank and in hand	28,571	-	28,571
Gross financial assets	177,468	551	178,019
Financial liabilities			
Liquidity facility	25,000	-	25,000
Mortgage backed loan notes due 2041	180,559	-	180,559
Derivative liabilities	-	398	398
Gross financial liabilities	205,559	398	205,957
2011	Floating £000	Non interest bearing £000	Total £000
Financial assets			
Loan to Originator	172,707	-	172,707
Derivative asset	-	861	861
Cash at bank and in hand	5,639	-	5,639
Gross financial assets	178,346	861	179,207
Financial liabilities:			
Mortgage backed loan notes due 2041	196,370	-	196,370
Derivative liabilities	-	23	23
Gross financial liabilities	196,370	23	196,393

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

2012

	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	5+ years £000
Financial assets:					
Loan to Originator	-	-	-	-	148,897
Derivative asset	-	-	-	-	551
Cash at bank and in hand	28,571	-	-	-	-
Gross financial assets	28,571	-	-	-	149,448
Financial liabilities:					
Liquidity facility	-	-	-	-	25,000
Mortgage backed loan notes due 2041	-	-	-	-	180,559
Derivative liabilities	-	-	-	-	398
Gross financial liabilities	-	-	-	-	205,957

2011

	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	5+ years £000
Financial assets:					
Loan to Originator	-	-	-	-	172,707
Derivative asset	-	-	-	-	861
Cash at bank and in hand	5,639	-	-	-	-
Gross financial assets	5,639	-	-	-	173,568
Financial liabilities:					
Mortgage backed loan notes due 2041	-	-	-	-	196,370
Derivative liabilities	-	-	-	-	23
Gross financial liabilities	-	-	-	-	196,393

Concentration of risk

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

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 State Street Administration Services (UK) Limited. The Company has paid a fee of £4,840 (2011 £4,800) to State Street Administration Services (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.

	2012 £000	2011 £000
Interest Receivable and similar income		
Interest on loan to Originator	8,416	8,925
Interest Payable and similar charges		
Interest on mortgage backed loan notes	1,649	1,858
Interest on subordinated loan	822	783

At the year end the Company had the following balances with the Commercial First Group of companies.

	2012 £000	2011 £000
Non- current assets		
Loan to Originator	148,897	172,707

17 Ultimate parent company

The share capital of the Company is held by BMF Holdings Limited, however the results are consolidated in the financial statements of Commercial First Group Limited as the directors consider this to be the controlling entity. Commercial First Group Limited is a company incorporated in England. The financial statements of this company are available by application, from the Company Secretary, Lutea House, Warley Hill Business Park, The Drive, Great Warley, Brentwood, Essex CM13 3BE.