Company Registration No. 02613335

CHESHIRE MORTGAGE CORPORATION LIMITED

Annual Report and Financial Statements

For the Year ended 30 June 2014

CHESHIRE MORTGAGE CORPORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S.P. Baker
G.D. Beckett
M.R. Goldberg
G.A. Jennison CEO - (appointed 1 October 2013)
J.M. Shaoul*
R.M. McTighe*
D.J. Bennett*
S.J. O'Hare* (appointed 6 December 2013)
H.N. Moser* (appointed 14 July 2014)

* Non-Executives

COMPANY SECRETARY

G.D. Beckett (appointed 6 December 2013)
M.J. Ridley (resigned 6 December 2013)

REGISTERED OFFICE

Lake View
Lakeside
Cheadle
Cheshire
United Kingdom
SK8 3GW

PRINCIPAL BANKERS

The Royal Bank of Scotland Plc
Spinningfields
Manchester
M3 3AP

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom

LEGAL ADVISORS

Eversheds
70 Great Bridgewater Street
Manchester
M1 5ES

STRATEGIC REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2014.

ENHANCED BUSINESS REVIEW

The company's principal activity during the year under review continues to be that of financiers. The directors do not expect any significant change to the activities of the company. A number of key performance indicators (KPIs) are monitored in order to review and control performance, position and liquidity and to plan for the future.

Results and dividends

As shown in the company's profit and loss account on page 7, the company made a profit before tax of £2.8m (2013: £1.9m profit). The increase in profits is due to lower administrative expenses and interest payable, largely driven by a reduction in legal and professional fees and bad debt provisions. This is partially offset by a decrease in turnover, the main contributor being a reduction in the loan book values (classified within trade debtors).

The directors of the company do not recommend the payment of a dividend (2013: £nil).

Position

As shown in note 7 to the financial statements, loan book values (classified as trade debtors) have reduced by 10.6% to £64.9m (2013: £72.6m) due to redemption levels exceeding the lower levels of new business. At the same time, shareholder's funds have increased by 21.3% to £12.5m (2013: £10.3m). The gearing ratio (being the ratio of debt to equity) has decreased to 4.09:1 (2013: 5.70:1) as the loan book has reduced in size and the company continues to fund a greater proportion of its loan book through reserves. For the purposes of calculating the company's gearing ratio the amounts owed to Group Undertakings is treated as 'debt'.

Liquidity

The company is financed by its parent company, Jerrold Holdings Limited, and a securitisation facility provided by Charles Street Conduit Asset Backed Securitisation 1 Limited.

In September 2013 the Group issued and closed an offering of £200 million Senior Secured Notes repayable in 2018. The proceeds were used to reduce the parent company's (i.e. Jerrold Holdings Limited) syndicated loan facility to £100m from £191m and to provide additional funding capacity for the Group. In addition the securitisation facility and its associated liquidity lines were extended on the 10 April 2014 to 31 January 2018, conditional upon receiving a prescribed rating by 31 December 2014, with the facility being increased from £373m to £435m and no principal repayments due until 31 January 2017.

The ability of the company to service its debts is measured using an interest cover ratio, being profit before tax and interest divided by interest payable. This has increased to 1.8:1 (2013: 1.5:1). The company closely monitors its liquidity position against its business plan on a regular basis taking into consideration the level of redemption activity, recurring income levels, planned expenditure and new business advance levels. Any material deviations are identified and appropriate action taken to ensure that sufficient liquidity headroom exists at all times.

Non-financial KPIs

The activities of the company are regulated by the Financial Conduct Authority, "FCA", including arranging regulated mortgage contracts and entering into and administering the same. The FCA has prescribed rules, principles and guidance (the "FCA Rules") with which certain of our retail lending operations must comply. The FCA Rules include rules that impose, amongst other things, high level standards on the establishment and maintenance of proper systems and controls and minimum "threshold conditions" that must be satisfied for lending firms to remain authorised as well as rules on the conduct of business, the fitness and propriety of individuals performing certain functions in our business and treating customers fairly. The FCA Rules also impose certain minimum capital and liquidity requirements on us and Conduct of Business Rules which include "treating customers fairly" obligations which require us, amongst other things, to demonstrate that senior management are taking responsibility for ensuring that we and our staff at all levels deliver the consumer outcomes relevant to our business by establishing and maintaining an appropriate culture and business practices.

In addition, the FCA imposes requirements with regard to the management of customer complaints and the fitness and propriety of individuals (ie approved persons) performing certain functions in our business (ie controlled functions).

STRATEGIC REPORT (continued)

Non-financial KPIs (continued)

Employees undertake appropriate training which is supported by operational quality assurance, compliance reviews and internal audit reviews. Procedures are established to enhance and monitor quality of compliance, including authorisation of procedural and policy changes, sample reviews, employee awareness and training programmes, along with employee and customer feedback including the assessment and understanding of complaints received.

PRINCIPAL RISKS AND UNCERTAINTIES

Credit risk

The company is exposed to changes in the economic position of its customers, which may adversely impact their ability to make loan repayments. The level of risk in this respect is driven by both macro-economic factors, such as house prices, as well as by factors relating to specific customers, such as a change in the borrower's circumstances. Credit risk is managed at loan inception, via stringent underwriting policies with regard to affordability levels, credit worthiness and loan to property value ratios, and throughout the life of the loan, via monitoring of arrears levels, proactive collections strategies, application of forbearance measures, property loan to value ratios and by applying macro-economic sensitivity analysis.

Interest rate risk

The company's loan book consists primarily of variable rate mortgages. This is matched by the Group's funding facilities which are subject to monthly movements in the external costs of funds. In addition, the Group has the ability to undertake hedging transactions in order to mitigate potential interest rate risk.

Liquidity and funding risk

The company actively monitors and considers compliance with its funding covenants, including formal monthly reporting and by performing stress test analysis as part of it's budgeting and forecasting process.

Regulatory risk

As discussed above, the company undertakes activities which are regulated by the FCA. The directors support and monitor compliance with applicable regulations including those set forward by the FCA.

The company has in place a governance and management structure that provides effective risk management, supports decision making and provides strong oversight over our business activities. As part of the Group's governance and management structure, we have a three-tiered risk management framework, the "3 Lines of Defence" model, to help ensure that risk management and adherence to regulatory compliance is integral to all business activities and decision-making processes. The first line of defence comprises all managers and staff, including the Chief Executive Officer, as well as our operational committees, including the Executive, and Fraud Committees and the Credit Risk Arrears Forum. The second line of defence comprises risk, compliance and financial control functions, as well as the Executive Risk Committee, Conduct Excellence Committee (covering Treating Customers Fairly) and the Retail and Commercial Credit Risk Committees. The third line of defence includes our internal audit function, our Audit, Risk and Compliance Committee and the Board of Directors.

Exchange rate risk

All the company's activities are in sterling and are not subject to exchange rate risk.

Approved by the Board of Directors
and signed on behalf of the Board

G.D. Beckett
Secretary

8 September 2014

DIRECTORS REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2014.

ENVIRONMENT

As the company operates in the financial services sector, its actions do not have a significant environmental impact. However, the company does recognise the importance of the environment and acts to minimise its impact on the environment wherever it can, including recycling and reducing energy consumption.

STATEMENT OF GOING CONCERN

As set out in the Directors' Responsibilities Statement, in preparing these financial statements the directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors of the company have considered the Group's forecast funding and liquidity positions and applied reasonable sensitivities thereon in order to confirm that the preparation of the company's financial statements on a going concern basis is appropriate.

The company is reliant on its parent company, Jerrold Holdings Limited, for a significant proportion of its funding. The Board of Jerrold Holdings Limited has confirmed that it is a going concern and that it will provide funding to the company for the foreseeable future.

On the basis that the Group has adequate funding as detailed above, together with its current performance and financial position, the directors have a reasonable expectation that the Group will have sufficient funding and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly the directors of the company have adopted the going concern basis in preparing financial statements.

DIRECTORS

The directors of the company are set out on page 1. All directors served throughout the year and subsequently thereafter except as noted on page 1.

DIRECTORS INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

AUDIT INFORMATION

In the case of each of the persons who are directors of the company at the date when this report is approved:

- as far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditor is unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any audit information (as defined) and to establish that the company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of S418(2) of the Companies Act 2006.

AUDITOR

A resolution to re-appoint Deloitte LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

G.D. Beckett

Secretary

8 September 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 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 CHESHIRE MORTGAGE CORPORATION LIMITED

We have audited the financial statements of Cheshire Mortgage Corporation Limited for the year ended 30 June 2014 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's 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, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 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.

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.

Peter Birch (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

8/9/2014

PROFIT AND LOSS ACCOUNT
For the year ended 30 June 2014

	Note	2014 £	2013 £
TURNOVER	2	7,850,067	8,118,850
Cost of sales		(68,492)	(926)
GROSS PROFIT		7,781,575	8,117,924
Administrative expenses		(1,432,499)	(2,099,592)
OPERATING PROFIT		6,349,076	6,018,332
Interest payable	4	(3,521,485)	(4,143,920)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	2,827,591	1,874,412
Tax charge on profit on ordinary activities	6	(637,986)	(449,018)
RETAINED PROFIT FOR THE FINANCIAL YEAR	13	2,189,605	1,425,394

All activity has arisen from continuing operations.

There were no recognised gains or losses in either year other than the profit for that year shown above. Accordingly, a separate statement of total recognised gains and losses has not been presented.

BALANCE SHEET
As at 30 June 2014

	Note	2014 £	2013 £
CURRENT ASSETS			
Debtors			
- due within one year	7	3,955,544	7,003,638
- due after one year	7	60,965,635	65,659,701
Cash at bank and in hand		135,809	281,490
		65,056,988	72,944,829
CREDITORS: Amounts falling due within one year	8	(1,740,581)	(4,226,075)
NET CURRENT ASSETS		63,316,407	68,718,754
CREDITORS: Amounts falling due after more than one year	9	(50,865,195)	(58,457,147)
NET ASSETS		12,451,212	10,261,607
CAPITAL AND RESERVES			
Called-up share capital	11	2	2
Profit and loss account	12	12,451,210	10,261,605
SHAREHOLDER'S FUNDS	13	12,451,212	10,261,607

The financial statements of Cheshire Mortgage Corporation Limited were approved by the Board of Directors and authorised for issue on 8 September 2014. (Company Registration No. 02613335)

Signed on behalf of the Board of Directors

G D Beckett
Director

G A Jennison
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable law and United Kingdom accounting standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the current and prior year.

Accounting convention and going concern

The company prepares its financial statements under the historic cost convention and on the going concern basis. The directors continue to adopt the going concern basis as disclosed in the Directors' Report - Statement of Going Concern.

As permitted by FRS 1 (Revised 1996) "Cash flow statements", the company has not produced a cash flow statement as it is a wholly owned subsidiary undertaking of Jerrold Holdings Limited which has produced consolidated financial statements that are publicly available.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover and cost of sales

Turnover consists of interest recoverable on loans, fees and commissions income. Interest income is recognised on an accruals basis. Other finance related fees receivable are credited to income when the related service is performed. Cost of sales includes the direct costs of the financing, including fees and commissions payable.

Provisions for bad and doubtful debts

Specific provisions are made when the directors consider that the recoverability of the advance is in part or in whole doubtful. Incurred but not reported loss provisions are raised to cover losses that are judged to be present in loans and advances at the balance sheet date but which have not been specifically identified as such. Provisions for bad and doubtful debts, along with bad debt write-offs, are charged to operating profit as part of administrative expenses.

Loan notes

Loan notes are recognised at amortised cost net of debt issue costs. Interest and fees payable to the loan note holders during the financial period are recognised in the profit and loss account over the term of the notes using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2014

2. TURNOVER

Turnover is wholly-derived from within the UK and relates to the principal activity of the company.

3. STAFF COSTS

The company had no employees and paid no directors' emoluments during either year.

Directors' emoluments are borne by a fellow subsidiary company of Jerrold Holdings Limited, Blemain Finance Limited.

4. INTEREST PAYABLE

	2014	2013
	£	£
Interest payable on intercompany borrowings	(2,201,682)	(2,643,237)
Interest payable on loan notes	(1,319,057)	(1,499,370)
Other interest	(746)	(1,313)
	(3,521,485)	(4,143,920)

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2014	2013
	£	£
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
Owned assets	-	977
Loss on sale of fixed assets	-	1,858

The audit fee was borne by another group undertaking.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2014	2013
	£	£
Current tax		
UK corporation tax on profits of the year	555,539	426,341
Adjustment in respect of previous periods	(48)	(1)
	555,491	426,340
Deferred tax		
Origination and reversal of timing differences	80,708	18,892
Effects of changes in tax rates	1,787	3,786
Total deferred tax (see note 10)	82,495	22,678
Total tax on profit on ordinary activities	637,986	449,018

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2014

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2014 £	2013 £
Profit on ordinary activities before tax	2,827,591	1,874,412
Tax on profit on ordinary activities at standard UK corporation tax rate of 22.5% (2013: 23.75%)	636,247	445,185
Effects of:		
Expenses not deductible for tax purposes	-	48
Movement in short term timing differences	(80,708)	(18,754)
Capital allowances in excess of depreciation	-	(138)
Adjustment to tax charge in respect of previous periods	(48)	(1)
Current tax charge for year	555,491	426,340

The main rate of corporation tax reduced from 23% to 21% from 1 April 2014 resulting in a standard rate of corporation tax for the year to 30 June 2014 of 22.5%.

7. DEBTORS

	2014 £	2013 £
Amounts falling due within one year:		
Trade debtors	3,944,152	6,998,310
Prepayments	7,860	5,328
Other debtors	3,532	-
	3,955,544	7,003,638
Amounts falling due after more than one year:		
Trade debtors	60,965,635	65,577,206
Amounts owed by fellow group undertakings	-	-
Deferred taxation (see note 10)	-	82,495
	60,965,635	65,659,701
	64,921,179	72,663,339

Included within Trade Debtors is an amount of £35,998,928 (2013: £41,887,790) which is funded through a securitisation vehicle. The remainder of the loan book is funded by amounts owed to group undertakings and reserves.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2014

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £	2013 £
Trade creditors	44,198	7,456
Corporation tax	555,538	426,343
Other taxes and Social Security	13,916	1,084
Accruals and deferred income	1,082,868	3,734,467
Other creditors	44,061	56,725
	1,740,581	4,226,075

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 £	2013 £
Loan notes	25,797,060	29,942,694
Amounts owed to group undertakings	25,068,135	28,514,453
	50,865,195	58,457,147
Borrowings are repayable as follows:		
Between one and two years	25,068,135	58,457,147
Between two and five years	25,797,060	
	50,865,195	58,457,147

The interest bearing loan notes are provided through a securitisation vehicle and are secured on specific loan assets. On 10 April 2014, the securitisation facility and its associated liquidity lines was renewed and amended with a new expiry date of 31 January 2018. The balance of £25.8m above is net of prepaid fees which are being amortized over the expected duration of the facility.

The terms of the intercompany loan result in the balance not being repayable prior to 31 December 2015.

10. DEFERRED TAXATION

	£
Balance at 1 July 2013	82,495
Charge to the profit and loss account	(82,495)
Balance at 30 June 2014	-

The deferred tax asset in the financial statements is as follows:

	2014 £	2013 £
Other timing differences	-	82,495

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 30 June 2014

11. CALLED-UP SHARE CAPITAL

	2014	2013
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Called-up, allotted and fully-paid		
2 ordinary shares of £1 each	2	2

12. PROFIT AND LOSS ACCOUNT

	£
At 1 July 2013	10,261,605
Retained profit for the financial year	2,189,605
At 30 June 2014	12,451,210

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2014	2013
	£	£
Opening shareholder's funds	10,261,607	8,836,213
Profit for the financial year	2,189,605	1,425,394
Closing shareholder's funds	12,451,212	10,261,607

14. CONTINGENT LIABILITY

As at 30 June 2014 the company's assets were subject to a fixed and floating charge in respect of £35m of bank borrowings of the group (2013: £204.5m).

15. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary undertaking of Jerrold Holdings Limited, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" not to disclose transactions with other members of the group headed by Jerrold Holdings Limited.

16. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary undertaking of Jerrold Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

The largest and smallest group of which Cheshire Mortgage Corporation Limited is a member, and for which group financial statements are drawn up, is that headed by Jerrold Holdings Limited, whose principal place of business is at Lake View, Lakeside, Cheadle, Cheshire, SK8 3GW.

H.N. Moser, a director of Jerrold Holdings Limited, and members of his close family, control the company as a result of controlling directly or indirectly 70% of the voting rights of Jerrold Holdings Limited.