

Bridestone Financing plc
Annual report and financial statements
For the year ended 30 June 2013

Registered number: 7839388



Bridestone Financing plc

Contents

| | Page |
|---|-------------|
| Directors' report | 3 |
| Independent auditor's report to the members of Bridestone Financing plc | 6 |
| Profit and loss account | 8 |
| Balance Sheet | 9 |
| Notes to the financial statements | 10 |

Bridestone Financing plc

Directors' report

The directors present their report, together with the financial statements and auditor's report, of Bridestone Financing plc (the "Company"), for the year ended 30 June 2013.

Principal activities

The Company's principal activity is the investment in portfolios of residential mortgage loans financed through the issue of floating rate loan notes ("Notes"), which are listed on the Channel Islands Stock Exchange

Business review

The Company is a special purpose company established to issue variable funding loan notes and to use the proceeds to acquire a portfolio of residential mortgage loans. On 18 November 2011 the Company issued £50,000,000 Notes due 2071 listed on the Channel Islands Stock Exchange. The proceeds were invested in a portfolio of residential mortgage loans located in the United Kingdom. The Company holds the beneficial title of these loans and Charter Mortgages Limited is the legal title owner.

Results and dividend

The results for the year are shown in the profit and loss account on page 8.

Net interest expense for the year was £2,574,422 (period 2012: £2,985,629). The net profit for the year was £1,415,950 (period 2012: loss of £3,496,584). The net liabilities of the Company as at 30 June 2013 were £2,068,132 (2012: £3,484,082).

The directors do not recommend payment of a dividend (2012: £nil).

Corporate Governance Statement

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

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

Due to the nature of the securities which have been issued, the Company is largely exempt from the disclosure requirements of the Financial Conduct Authority (previously the Financial Services Authority) pertaining to the Disclosure and Transparency Rules (DTR) as detailed in DTR 7.1 audit committees and DTR 7.2 corporate governance statements (save for DTR 7.2.5 requiring a description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and to include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

Bridestone Financing plc

Directors' report (continued)

Directors

The directors, who served throughout the year and subsequently, are as follows:

SFM Directors Limited

SFM Directors (No.2) Limited

Helena Whitaker

None of the directors had any beneficial interest in the ordinary share capital of the company. None of the director had any interest either during or at the end of the year in any material contract or arrangement with the Company.

Third Party Indemnities

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the directors' report and financial statements

Secretary

SFM Corporate Services Limited acted as Company Secretary throughout the year and subsequently.

Employees

The Company has no employees. All operational services have been formally contracted to third parties.

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 period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice for small companies (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 the consistently,
- Make judgements and accounting estimates that are reasonable and prudent, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Bridestone Financing plc

Directors' report (continued)

Directors' responsibilities statement (continued)

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

Going concern

The ability of the Company to meet its obligations on Notes and to meet its operating and administrative expenses is dependent on the extent that it receives the amounts due on the mortgage loans. In the event of insufficient funds remaining to meet interest payments, the Majority Noteholder can call a default on the Notes. The Majority Noteholder has confirmed that it will continue to provide loan note financing for a period of at least 12 months from the approval of these financial statements even in the event of an interest payment default arising

After considering the above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements

Statement of disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 (2) of the Companies Act 2006

Independent auditor

Deloitte LLP was appointed as auditor for the year and has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.



Vinoy Nursiah
per pro SFM Directors Limited
as Director

19 December 2013

Independent auditor's report to the members of Bridestone Financing plc

We have audited the financial statements of Bridestone Financing plc for the year ended 30 June 2013 which comprises 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. 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 2013 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.

Independent auditor's report to the members of Bridestone Financing plc (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period 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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report.



Matthew Perkins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom

20 December 2013

Bridestone Financing plc
Profit and loss account
For the year ended 30 June 2013

| | | Year ended 30 June 2013 | Period from 8 November 2011 to 30 June 2012 |
|--|-------------|------------------------------------|--|
| | Note | £ | £ |
| Interest receivable and similar income | 3 | 1,359,022 | 969,851 |
| Interest payable and similar charges | 4 | (3,933,444) | (3,955,480) |
| Net interest expense | | (2,574,422) | (2,985,629) |
| Fee and other income | 5 | 4,508,893 | 4,643 |
| Administrative expenses | 2 | (518,406) | (515,499) |
| Operating profit/(loss) and profit/(loss) on ordinary activities before tax | 2 | 1,416,065 | (3,496,485)) |
| Tax on profit/(loss) on ordinary activities | 7 | (115) | (99) |
| Profit/(loss) on ordinary activities after tax and for the year/period | 14 | 1,415,950 | (3,496,584) |

The results for the current year relate entirely to continuing operations in the United Kingdom

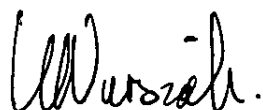
The Company had no recognised gains or losses other than those included in the profit and loss account and therefore no statement of recognised gains or losses has been presented.

Bridestone Financing plc
Balance Sheet
As at 30 June 2013

Registration number 07839388

| | | 2013 | 2012 |
|--|-------------|--------------|--------------|
| | Note | £ | £ |
| Mortgage debtors | 8 | 22,710,221 | 31,144,383 |
| Current assets | | | |
| Cash and cash equivalents | 9 | 868,226 | 671,091 |
| | | 868,226 | 671,091 |
| Creditors: amounts falling due within one year | 10 | (229,522) | (448,522) |
| Net current assets | | 638,704 | 222,569 |
| Total assets less current liabilities | | 23,348,925 | 31,366,952 |
| Creditors: amounts falling due after more than one year | 11 | (25,417,057) | (34,851,034) |
| Net liabilities | | (2,068,132) | (3,484,082) |
| Capital and reserves | | | |
| Called up share capital | 12 | 12,502 | 12,502 |
| Profit and loss account | 13 | (2,080,634) | (3,496,584) |
| Equity shareholders' deficit | | (2,068,132) | (3,484,082) |

The financial statements on page 8 to 16 were approved and authorised for issue by the board of directors on 19 December 2013.



Vinoy Nursiah
per pro SFM Directors Limited
as Director

Bridestone Financing plc

Notes to the financial statements

For the period ended 30 June 2013

1. Accounting Policies

Bridestone Financing plc is a company incorporated in the United Kingdom under the Companies Act 2006 with company number 7839388. The address of the registered office is 35 Great St Helen's, London, EC3A 6AP. The nature of the Company's operations and its principal activities are set out in the directors' report on page 3

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. There are currently no foreign operations

Basis of accounting

The financial statements of the Company for the year ended 30 June 2013 were prepared and published in accordance with applicable United Kingdom law and accounting standards.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on page 4

Interest income and expense

The revenue of the Company represents interest receivable and similar charges on its portfolio of residential mortgages.

Interest expense represents amounts payable on floating rate notes issued by the Company and amounts payable to investors under the terms of the mortgage portfolio acquisition and funding agreements.

Cash flow Statement

The company is exempt from the requirement to prepare a cash flow statement set out in Financial Reporting Standard No. 1 (FRS1).

Cash and cash equivalents

Balances shown are cash and cash equivalents in the statement of financial position comprise demand deposits and short term deposits with banks.

Bridestone Financing plc
Notes to the financial statements (continued)
For the year ended 30 June 2013

1. Accounting policies (continue)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rules and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, 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.

Mortgage debtors

Portfolios of mortgage assets are recorded at the lower of cost or net realisable value. Any amounts recovered over a portfolios' book value are taken to the profit and loss account as income.

Borrowings

Borrowings are carried on the balance sheet at cost.

Interest and all other costs of the funding are expensed to the profit and loss account as interest payable over the term of the borrowing.

2. Profit/(loss) before tax

Profit/(loss) on ordinary activities before taxation is stated after charging:

| | Year ended 30 June 2013 | Period from 8 November 2011 to 30 June 2012 |
|---|------------------------------------|--|
| | £ | £ |
| Auditor's remuneration for audit of the Company's accounts | 23,000 | 22,500 |
| Non-audit fees payable to the Company's auditors for taxation services were £8,000 (2012: £14,500). | | |

3. Interest receivable and similar income

| | Year ended 30 June 2013 | Period from 8 November 2011 to 30 June 2012 |
|--|------------------------------------|--|
| | £ | £ |
| Interest receivable from residential mortgage portfolios | 1,359,022 | 969,851 |

All revenues are generating within the UK from a single class of business.

Bridestone Financing plc
Notes to the financial statements (continued)
For the year ended 30 June 2013

3. Interest receivable and similar income (continued)

No interest has been charged on impaired assets during the year

4. Interest expense and similar charges

| | Year ended 30 June 2013 £ | Period from 8 November 2011 to 30 June 2012 £ |
|---------------------------|---------------------------------|--|
| Interest expense on Notes | 1,652,787 | 1,521,521 |
| Other interest | 2,280,657 | 2,433,959 |
| | <u>3,933,444</u> | <u>3,955,480</u> |

Other interest represents amount due to investors under the terms of the mortgage portfolio acquisition and funding agreements

5. Fee and other income

Included in fee and other income is £4,482,685 (2012: £nil) relating to amounts collected on redemption of mortgage debtors in excess of book value. See note 8 for further information on mortgage debtors.

6. Staff costs and directors remuneration

The Company had no employees during the year.

The Company paid £11,402 (2012: £10,402) to Structured Finance Management Limited for corporate services including provision of directors.

7. Tax

| | Year ended 30 June 2013 £ | Period from 8 November 2011 to 30 June 2012 £ |
|--------------------------------|---------------------------------|--|
| UK tax at 23.75% (2012: 25.6%) | | |
| Corporation tax | | |
| Current period | 115 | 99 |
| Total corporation tax | <u>115</u> | <u>99</u> |
| Deferred tax | | |
| Current period | - | - |
| | <u>115</u> | <u>99</u> |

Factors affecting the average tax charge for the year

The average effective rate of corporation tax assessed for the year is higher than the standard rate of corporation tax for companies in the UK of 23.75% (2012: 25.6%). The differences are explained below.

Bridestone Financing plc
Notes to the financial statements (continued)
For the year ended 30 June 2013

7. Tax (continued)

| | Year ended 30 June 2013 £ | Period from 8 November 2011 to 30 June 2012 £ |
|--|---------------------------------|--|
| Profit/(loss) on ordinary activities before tax | 1,416,065 | (3,496,485) |
| Profit/(loss) before after tax multiplied by standard rate of tax of 23.75% (2012: 25.6%) | 336,315 | (895,100) |
| Effects of: Securitisation regulations | (336,200) | 895,199 |
| Total tax charge for the year | <u>115</u> | <u>99</u> |

Secondary tax legislation, enacted in November 2006 under powers conferred by the Finance Act 2005, ensures that for companies that meet the definition of a 'securitisation company' for accounting periods commencing on or after 1 January 2007, corporation tax will be calculated by reference to the retained profit of the securitisation company required to be retained under the agreement that governs the company

The directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and relevant subsequent secondary legislation and that no incremental unfunded tax liabilities arose.

Change in tax rate

In July 2012, a reduction in the corporation tax rate to 23% from 1 April 2013 was substantively enacted into legislation.

The government has also announced a further reduction to 21% with effect from 1 April 2014, and 20% with effect from 1 April 2015. These further reductions have not been substantively enacted at the balance sheet date

8. Mortgage debtors

| | 2013 £ | 2012 £ |
|-----------------------|-------------------|-------------------|
| Residential mortgages | <u>22,710,221</u> | <u>31,144,383</u> |

The Company is the beneficial owner of a portfolio of residential mortgage loans acquired at a discount to their aggregate current balance in November 2011. Legal title to the mortgages is held by Charter Mortgages Limited under the terms of a mortgage sale agreement and a legal title holding agreement.

Bridestone Financing plc
Notes to the financial statements (continued)
For the year ended 30 June 2013

9. Cash and cash equivalents

| | 2013 £ | 2012 £ |
|--|-------------------------|-------------------------|
| Bank deposits | 28,771 | 10,552 |
| Amounts held on trust by third parties | 839,455 | 660,539 |
| | <u>868,226</u> | <u>671,091</u> |

Amounts held on trust by third parties comprise £12,502 (2012: £12,502) held by Structured Finance Management Limited client account in respect consideration for share capital allotted during the year and £826,953 (2012: £648,037) held by Charter Mortgages Limited representing amounts received from borrowers under mortgage agreements

10. Current liabilities

| | 2013 £ | 2012 £ |
|------------------------------|-------------------------|-------------------------|
| Other creditors and accruals | 30,159 | 72,827 |
| Accrued interest on Notes | 199,363 | 375,695 |
| | <u>229,522</u> | <u>448,522</u> |

11. Liabilities: falling due after more than one year

| | 2013 £ | 2012 £ |
|---------------------|-------------------------|-------------------------|
| Loan Notes due 2071 | <u>25,417,057</u> | <u>34,851,034</u> |

During the year the Company issued £nil (2012: £50,000,000) of floating rate loan notes, and repaid principal of £9,433,977 (2012: £15,148,966)

The mortgage backed loans notes are secured over a portfolio of residential mortgages secured by first charges over residential property in the United Kingdom. The notes are subject to redemption in part on each quarterly interest payment date in an amount equal to the amount of principal received or recovered in respect of each mortgage provided such amount does not exceed the amount paid to acquire the mortgage. The maturity date of the notes matches the maturity date of the underlying assets. It is likely that a substantial amount of the notes will be repaid within five years.

The Company has the option to repay the notes at an earlier date at the outstanding principal amount provided two Business Days notice is given to Loan Noteholders.

Interest is payable at a fixed margin of 5% above the three month London Interbank Offered Rate (LIBOR) as determined on each interest payment date in advance

Bridestone Financing plc
Notes to the financial statements (continued)
For the year ended 30 June 2013

12. Called up share capital

| | 2013 £ | 2012 £ |
|---|---------------|---------------|
| Issued, called up and allotted | | |
| 2 Ordinary shares of £1 fully paid up | 2 | 2 |
| 49,998 Ordinary shares of £1 quarter paid | 12,500 | 12,500 |
| | <u>12,502</u> | <u>12,502</u> |

13. Reserves

| | 2013 £ | 2012 £ |
|-------------------------|--------------------|--------------------|
| Profit and loss account | <u>(2,080,634)</u> | <u>(3,496,584)</u> |

14. Profit and loss account

| | £ |
|---|--------------------|
| Loss for the period and balance at 30 June 2012 | (3,496,584) |
| Profit for the year | 1,415,950 |
| Balance at 30 June 2013 | <u>(2,080,634)</u> |

15. Related party transactions

During the year the Company entered into the following transactions with related parties:

- the Company issued loan notes with a value of £nil (period 2012: £50,000,000) to companies controlled by its ultimate controlling entities, and repaid principal of £9,433,977 (period 2012: £15,148,966)
- the Company paid loan note interest and other interest of £3,933,444 (period 2012: £3,955,480) to companies controlled by its ultimate controlling entities
- the Company paid fees for mortgage administration services and legal title housing services of £504,194 (period 2012: £246,069) to companies controlled by the Company's ultimate controlling entities (see note 16).

16. Ultimate parent undertaking and controlling entity

The Company's immediate parent undertaking is Bridestone Financing Holdings Limited, a company registered in England and Wales.

The entire share capital of Bridestone Financing Holdings Limited is held by the legal parent company, SFM Corporate Services Limited, on a discretionary basis for the benefit of certain charities

Bridestone Financing plc
Notes to the financial statements (continued)
For the year ended 30 June 2013

16. Ultimate parent undertaking and controlling entity (continued)

As at 30 June 2013 and 30 June 2012 the Company's joint controlling parties were Elliott International L.P., a partnership organised in the Cayman Islands, and Elliott Associates L.P., a partnership organised in Delaware in the United States.

Elliott International L.P. is a controlling party by virtue of its interest in 65% of the Company's issued Notes. Elliott Associates L.P. is a controlling party by virtue of its interest in 35% of the Company's issued Notes.