Company Number 09217713

# KMC Berkeley Square Limited

Annual reports and financial statements

For the period from 15 September 2014 (date of incorporation) to 31 March 2015

## KMC Berkeley Square Limited

## Contents


| | Page |
|---|---|
| Officers and professional advisers | 1 |
| Strategic report | 2 |
| Directors' report | 4 |
| Statement of directors' responsibilities | 6 |
| Independent auditor's report | 7 |
| Profit and loss account | 9 |
| Balance sheet | 10 |
| Cash flow statement | 11 |
| Notes to the financial statements | 12 |

## KMC Berkeley Square Limited

## Officers and professional advisers

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**Directors**

SFM Directors Limited
SFM Directors (No.2) Limited
John Paul Nowacki

**Company secretary and registered office**

SFM Corporate Services Limited
35 Great St. Helen's
London,
EC3A 6AP

**Company number**

09217713
(England and Wales)

**Auditor**

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

**KMC Berkeley Square Limited**
Company Registration Number 09217713

# Strategic report for the period from 15 September 2014 (date of incorporation) to 31 March 2015

The directors present the strategic report of KMC Berkeley Square Limited (the "Company") for the period from 15 September 2014 (date of incorporation) to 31 March 2015.

## Incorporation, principal activities and business review

The Company, a private limited company, was incorporated on 15 September 2014 in the United Kingdom and registered in England and Wales under the Companies Act 2006.

The Company is a special purpose vehicle whose main activity is to act as a warehouse vehicle to acquire the beneficial title in a portfolio of residential mortgage loans located in England, Wales, Scotland and Northern Ireland (the "Mortgage Loans") for an amount of £925,971,637 from Kayl PL S.à.r.l ("Kayl PL") pursuant to the terms of the Mortgage Sale Agreement dated 30 January 2015. Kayl PL had purchased these Mortgage Loans from Investec Bank Plc and St James's Park Mortgage Funding Limited. The Company's intention is to purchase and sell Mortgage Loans.

The legal ownership of the Mortgage Loans acquired by the Company from Kayl PL fail the de-recognition criteria under the accounting standards adopted by Kayl PL, as the significant economic risks and rewards associated with these Mortgage Loans remain with Kayl PL and therefore they are not deemed to have been transferred to the Company for accounting purposes. Hence, these Mortgage Loans remain on the balance sheet of Kayl PL and are classified as loan to originator ("Loan to Originator") on the balance sheet of the Company (note 9). At 31 March 2015 the Loan to Originator balance is to £388,736,079.

To finance the acquisition of the Loan to Originator, on 3 October 2014 the Company entered into a senior loan agreement (the "Senior Loan") with Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Morgan Stanley Bank, NA (together the "Senior Lenders") for a total commitment of £875,900,000. On 30 January 2015 the Company utilised £832,374,606 of this facility. Repayment of the Senior Loan during the year amounted to £485,545,554. There were no further drawdowns of the Senior Loan up until 31 March 2015.

On 30 January 2015 the Company entered into a Subordinated Note Issuance Agreement (varied by the First Deed of Amendment dated 12 May 2015) for the issue of a subordinated note for £115,599,067 (the "Sub Note") subscribed to by Kayl PL. Repayment of the Sub Note during the year amounted to £43,222,946. There were no further drawdowns of the Sub Note up until 31 March 2015.

During the reporting period the Company sold a proportion of the Loan to Originator back to Kayl PL for a total consideration of £525,796,775. Other repayments during the period amounted to £11,176,728. The total of the sale proceeds and principal repayments received were used to repay £485,545,554 of the Senior Loan and to partially repay £43,222,946 of the Sub Note.

## Results

The profit and loss account is set out on page 9 and shows the profit for the period.

## Key performance indicators, principal risks and uncertainties

The profit before tax for the period to 31 March 2015 amounted to £333.

An impairment loss of £262,055 was accounted for in the profit and loss account during the current period.

The Company's operations are financed primarily by means of the Senior Loan and Sub Note. The Company used such financial instruments to finance the acquisition of the Loan to Originator.

The directors monitor the Company's performance by reviewing monthly reports on the performance of the Loan to Originator to ensure that the transaction terms have been complied with, no unforeseen risks have arisen and that the Senior Lenders and Sub Note holder have been paid on a timely basis.

The primary risks arising from the Company's financial instruments are credit risk, liquidity risk, market risk and interest rate risk.

### Financial instruments

The Company uses derivative financial instruments (interest rate swaps) to manage the interest rate risks arising from the Company's sources of income (the Loan to Originator) and its sources of finance (the Senior Loan and Sub Note). It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

### Credit risk

Credit risk reflects the risk that the Company's counterparties will not meet their obligations as they fall due.

The Company's principal business objective rests on the purchase of Mortgage Loans.

The Company has entered into derivative contracts to economically hedge interest rate risk. The derivative counterparties are rated, regulated financial institutions, resulting in a lower risk of default. The derivative counterparties are required to post collateral in the event of a downgrade of their credit rating. At 31 March 2015 no collateral had been posted. The Company does not apply hedge accounting.

An impairment loss of £262,055 has been recognised against the Loan to Originator as at 31 March 2015.

### Liquidity risk

Liquidity risk reflects the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments should the actual cash flows from its assets differ from those expected.

The Company's assets (the Loan to Originator) are financed principally by the Senior Loan and Sub Note. The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from the Loan to Originator with those of the cash payments on the Senior Loan and Sub Note. The Company's ability to pay amounts due on the Senior Loan and Sub Note is, in substance, limited to the application of the receipts from the Loan to Originator.

### Market risk

Market risk is defined as the potential loss in value of an organisation arising from changes in external market factors.

Interest rate risk is the only market risk to which the Company is exposed.

### Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates which are either set under different bases or 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; and, where this is not possible, using derivative financial instruments to mitigate any residual interest rate risk. At the year end, the Company was party to interest rate swaps.

### Capital management

The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006.

On behalf of the Board

Sue Abrahams
per pro SFM Directors Limited as Director
19 February 2016

## Directors' report for the period from 15 September 2014 (date of incorporation) to 31 March 2015

The directors present their first report together with the audited financial statements of the Company for the period from 15 September 2014 (date of incorporation) to 31 March 2015.

### Going concern

The directors consider the Company will continue to trade by meeting its liabilities as they fall due for payment in cash. On 20 March 2015 the Company sold a proportion of the Loan to Originator back to Kayl PL for an amount of £525,796,775 and Kayl PL then sold these Mortgage Loans to Residential Mortgages 28 plc which securitised the assets. Other repayments of the Loan to Originator during the period amounted to £11,176,728. The proceeds of the sale by the Company and principal repayments received were used to repay £485,545,554 of the Senior Loan and to partially repay £43,222,946 of the Sub Note.

Subsequent to the balance sheet date, in April 2015 there were was a partial repayment of the Senior Loan of £16,977,470. In May 2015 there was a further partial repayment of £5,235,181 and on 8 June 2015 following a sale of £338,359,088 of a portion of the Loan to Originator, the remaining balance of the Senior Loan of £324,616,401 was repaid in full.

As at 30 October 2015 the remaining balance at 31 March 2015 of the Sub Note of £72,376,121 was repaid in full following a further partial sale of the Mortgage Loans of £35,053,463.

It is the intention of the directors to sell the remaining pool of mortgages. The directors have prepared cash flow forecasts for the next 12 months and have concluded there will be adequate funds within the Company to cover minimal expected operating costs.

At the balance sheet date the accounts have therefore been prepared on a going concern basis.

### Future developments

The directors have considered the future changes to the United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the impact of adoption of the changes (interest rate accounting and recognition of derivatives) will materially affect the reporting of the annual reports and the financial statements.

The effect of the changes will be to recognise interest income on the Loan to Originator in the profit and loss account on an Effective Interest Rate basis ("EIR). The EIR recognises revenue equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the Loan to Originator.

UK GAAP requires all derivative instruments to be recognised initially at fair value and subsequently remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and where negative, it is a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account.

The Loan to Originator will be classified as held for trading and recorded at fair value on the balance sheet with changes in fair value recognised in the profit and loss.

### Issue of shares

The issued share capital consists of 1 fully paid ordinary shares of £1.

### Directors

The directors of the Company during the period, and subsequently, were:

| | |
|---|---|
| SFM Directors Limited | (appointed 15 September 2014) |
| SFM Directors (No.2) Limited | (appointed 15 September 2014) |
| John Paul Nowacki | (appointed 15 September 2014) |

None of the directors has any beneficial interest in the ordinary share capital of the Company.

### Directors (*continued*)

None of the directors had any interest either during or at the end of the period in any material contract or arrangement with the Company.

The directors do not recommend the payment of a dividend.

### Third party indemnities

Qualifying third party indemnity provisions for the benefit of the directors were in force during the period under review and remain in force as at the date of approval of the annual reports and financial statements.

### Company secretary

SFM Corporate Services Limited was appointed as the company secretary on 15 September 2014 and served during the period and subsequently.

### Events occurring after the balance sheet date

Subsequent to the balance sheet date, in April 2015 there were was a partial repayment of the Senior Loan of £16,977,470. In May 2015 there was a further partial repayment of £5,235,181 and on 8 June 2015 following a sale for a consideration of £338,359,088 of a portion of the Loan to Originator, the remaining balance of £324,616,401 of the Senior Loan was repaid in full.

As at 30 October 2015, the remaining balance at 31 March 2015 of the Sub Note of £72,376,121 was repaid in full following a further partial sale of the Mortgage Loans of £35,053,463.

The directors confirm that there are no other significant event occurring after the balance sheet date, up to the date of this report, that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2015 and for the period then ended.

### Statement of disclosure of information to auditor

The directors confirm that:

a) so far as the directors are aware, there is no relevant information of which the Company's auditor is unaware; and

b) each director has taken all the steps that they ought to have taken as directors in order to make themselves 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.

### Auditor

The auditor, Ernst and Young LLP, was appointed as the first auditor of the Company during the period under review. Having expressed their willingness to continue in office, pursuant to section 487 of the Companies Act 2006, a written resolution of the shareholder will be passed to confirm the re-appointment of the auditor.

On behalf of the Board

Sue Abrahams
per pro SFM Directors Limited as Director
19 February 2016

## Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with the Companies Act 2006, 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 (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. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 proper 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 to 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 KMC BERKELEY SQUARE LIMITED**

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We have audited the financial statements of KMC Berkeley Square Limited for the period from 15 September 2014 (date of incorporation) to 31 March 2015 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 20. 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 Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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 reports and financial statement 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 31 March 2015 and of its profit for the period 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 period for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KMC BERKELEY SQUARE LIMITED (CONTINUED)**

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**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.

Ernst & Young LLP

*Michael-John Albert*
*(Senior statutory auditor)*
*for and on behalf of Ernst & Young LLP, Statutory Auditor*
*London*

19 *February 2016*

## KMC BERKELEY SQUARE LIMITED

### Profit and loss account for the period from 15 September 2014 (date of incorporation) to 31 March 2015

| | Note | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|---|
| Interest receivable and similar income | 2 | 6,809,881 |
| Interest payable and similar charges | 3 | (4,407,047) |
| **Net interest income** | | 2,402,834 |
| Other operating income | 4 | 13,563,420 |
| Operating expense | 5 | (1,499,647) |
| Deferred consideration | 6 | (14,204,219) |
| Impairment of Loan to Originator | | (262,055) |
| **Profit on ordinary activities before taxation** | 6 | 333 |
| Taxation on ordinary activities | 8 | (70) |
| **Profit for the financial period** | 13 | **263** |

All amounts relate to continuing activities.

There are no recognised gains or losses other than the profit for the period as presented above. Accordingly a statement of total recognised gains and losses is not presented.

The accompanying notes on pages 12 to 20 are an integral part of these financial statements.

**KMC BERKELEY SQUARE LIMITED**
Company Registration Number 09217713

## Balance sheet at 31 March 2015

| | Note | 2015 £ |
|---|---|---|
| **Current assets** | | |
| Loan to Originator | 9 | 388,736,079 |
| Cash at bank and in hand | | 37,129,965 |
| Debtors | 10 | 7,433,509 |
| | | 433,299,553 |
| Creditors: amount falling due within one year | 11 | (18,617,910) |
| **Net current assets** | | 414,681,643 |
| **Total assets less current liabilities** | | 414,681,643 |
| Creditors: amounts falling due after more than one year | 11 | (414,681,379) |
| **Net assets** | | **264** |
| **Capital and reserves** | | |
| Called up share capital | 12 | 1 |
| Profit and loss account | 13 | 263 |
| **Total shareholders' funds** | 14 | **264** |

The accompanying notes on pages 12 to 20 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 19 February 2016.

Sue Abrahams
per pro SFM Directors Limited
as Director

## KMC BERKELEY SQUARE LIMITED

**Cash flow statement for the period from 15 September 2014 (date of incorporation) to 31 March 2015**

| | Note | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|---|
| **Net cash inflow from operating activities** | 15 | 4,199,470 |
| **Returns on investments and servicing of finance** | | |
| Interest received on Loan to Originator | | 6,755,808 |
| Interest received on cash at bank | | 54,073 |
| Interest paid on Senior Loan | | (2,320,231) |
| Interest paid on Sub Note | | (1,651,026) |
| Interest paid on interest rate swaps | | (115,169) |
| | | 2,723,455 |
| **Capital expenditure and financial investment** | | |
| Acquisition of Loan to Originator | | (925,971,637) |
| Repayment of Loan to Originator | 9 | 536,973,503 |
| | | (388,998,134) |
| **Cash outflow before financing** | | (382,075,209) |
| **Financing** | | |
| Issuance of share capital | 12 | 1 |
| Proceeds of Senior Loan | | 832,374,606 |
| Proceeds of Sub Note issuance | | 115,599,067 |
| Repayment of Senior Loan | 16 | (485,545,554) |
| Repayment of Sub Note | 16 | (43,222,946) |
| | | 419,205,174 |
| **Movement in cash in the period** | | **37,129,965** |
| Cash at beginning of the period | | - |
| **Cash at the end of the period** | | **37,129,965** |

The accompanying notes on pages 12 to 20 are an integral part of these financial statements.

## 1) Accounting policies

The financial statements are prepared on a going concern basis under the historical cost convention, as modified by revaluation of certain financial instruments, and in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

The directors have adjusted the format of the profit and loss account as allowed under SI2008/410, Schedule 1,4(1), since, in the opinion of the directors, net interest income is a more appropriate measure than turnover and cost of sales.

*Going concern*

Subsequent to the balance sheet date, in April 2015 there were was a partial repayment of the Senior Loan 2015 of £16,977,470. In May 2015 there was a further partial repayment of £5,235,181 and on 8 June 2015 following a sale of £338,359,088 of a portion of the Loan to Originator, the remaining balance of the Senior Loan of £324,616,401 was repaid in full.

As at 30 October 2015 the remaining balance at 31 March 2015 of the Sub Note of £72,376,121 was repaid in full following a further partial sale of the Mortgage Loans of £35,053,463.

It is the intention of the directors to sell the remaining pool of mortgages. The directors have prepared cash flow forecasts for the next 12 months and have concluded there will be adequate funds within the Company to cover minimal expected operating costs.

At the balance sheet date the accounts have therefore been prepared on a going concern basis.

*Servicing fees*

Fees payable by the Company to the mortgage servicer for costs related to the administration of the mortgage pool are recognised as an expense when incurred and are included in operating expenses.

*Structuring fees*

Initial costs incurred in arranging funding facilities are amortised using the straight line method over the term of the facility. Unamortised initial costs are deducted from the associated amortised liability costs in the year and are included in operating expenses.

*Segmental analysis*

The Company's operations are carried out in one geographical segment, being the United Kingdom. The Company's activities are carried out in one business segment.

*Interest receivable and similar income and Interest payable and similar charges*

The Company accounts for interest income and expense on an accruals basis. Interest income on financial assets that are classified as Loan to Originator and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the accruals basis.

*Other income*

Any gain or loss arising upon acquiring the Loan to Originator (calculated as the difference between the net purchase price paid and the carrying amount of the Loan to Originator) is included in the profit and loss account.

Any gain or loss arising upon derecognition of the Loan to Originator (calculated as the difference between the net sale proceeds and the carrying amount of the Loan to Originator) is included in the profit and loss account.

## 1) Accounting policies (*continued*)

*Subordinated notes*

Subordinated notes (the "Sub Note") are classified as creditors and are initially recognised at fair value at the date of issuance of the liability, and are subsequently measured on an accruals basis.

*Loan to Originator*

Where a transfer of a financial asset does not qualify for de-recognition, the transferee does not recognise the transferred asset as its asset. The transferee de-recognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the Mortgage Loans transferred to the Company, de-recognition is considered to be inappropriate for Kayl PL's own financial statements as it has retained significant risks, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. The Company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in the Mortgage Loans are recognised as a collateralised non-recourse Loan to Originator.

The Loan to Originator is a non-derivative financial asset with fixed or determinable repayments that is not quoted in an active market. It is classified as loans and receivables, and recorded in current assets. Loan to Originator is measured on initial recognition at fair value, and is subsequently measured on an accruals basis.

*Impairment of Loan to Originator*

Kayl PL assesses at each balance sheet date whether there is evidence that a mortgage asset or a portfolio of mortgage assets is impaired. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ("a loss event"), and that loss event or events has had an impact on the estimated future cash flows of the mortgage assets or the portfolio that can be reliably estimated.

Kayl PL first assesses whether objective evidence of impairment exists individually for mortgage assets that are individually significant, and then collectively for mortgage assets that are not individually significant. If Kayl PL determines that no objective evidence of impairment exists for an individually assessed mortgage asset, it includes the asset in a group of mortgage assets with similar credit risk characteristics and collectively assesses them for impairment. Mortgage assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, mortgage assets are grouped on the basis of similar risk characteristics, taking into account asset type, borrower, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the loss is recognised in the profit and loss account.

Any impairment in the mortgage assets will be reflected in the Company's accounts by adjusting the carrying amount of the Loan to Originator.

*Deferred consideration*

A creditor ("deferred consideration") for amounts payable to Kayl PL for this residual interest has been recognised at the period-end. The payments of deferred consideration are strictly governed by the priority of payments that sets out how cash can be utilised.

An accrual is made for deferred consideration within the financial statements as amounts are expected to become payable as a result of the performance of the mortgage assets.

## 1) Accounting policies (*continued*)

*Derivative instruments*

Derivative financial instruments utilised by the Company are interest rate swaps. Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policy. The Company does not apply hedge accounting. The Company accounts for derivatives using the following method:

Accrual method: amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest expense over the period of the contracts. Changes in the derivative's fair value are not recognised.

The fair value of such derivative contract is the estimated amounts that the Company would receive or pay to terminate such swap at the balance sheet date and is calculated by discounting future cash flows using observable market data at that date. The fair value of these derivative instruments as at 31 March 2015 is a liability of £157,497. Since the Company does not apply Financial Reporting Standard 26: Financial Instruments: Recognition and Measurement (Revised), the fair value of the swaps has not been disclosed in the balance sheet.

*Taxation*

Under the powers conferred by the Finance Act 2005 (the "Act"), secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement, detailed in the prospectus.

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

The charge for taxation is based on the profit 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 taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions:

(i) Deferred tax assets are recognised only to the extent that the directors consider it is more likely that not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

(ii) Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## 2) Interest receivable and similar income

| | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|
| Interest received on Loan to Originator | 6,755,808 |
| Other interest received | 54,073 |
| | 6,809,881 |

## 3) Interest payable and similar charges

| | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|
| Interest expense on Senior Loan | 2,493,995 |
| Interest expense on Sub Note | 1,789,830 |
| Interest expense on interest rate swaps | 123,222 |
| | 4,407,047 |

## 4) Other operating income

| | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|
| Premium received on Loan to Originator | 11,097,423 |
| Gain on purchases on Loan to Originator | 2,418,726 |
| Other income | 47,271 |
| | 13,563,420 |

## 5) Operating expense

| | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|
| Structuring fee amortisation | 448,663 |
| Other expense | 1,050,984 |
| | 1,499,647 |

## 6) Profit on ordinary activities before taxation

| | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|
| This has been arrived at after charging: | |
| Deferred consideration | 14,204,219 |
| Auditors' remuneration - audit services | 12,198 |

There were no non-audit fees charged during the period.

## 7) Directors and employees

The Company has no employees and services required are contracted from third parties.

None of the directors received any emoluments during the period for their services to the Company nor received any benefits from the Company. The directors are employed and remunerated by Structured Finance Management Limited in respect of their services to the Company.

## 8) Taxation on profit on ordinary activities

For UK corporation tax purposes, the Company has been considered as a Securitisation Company under the Taxation of Securitisation Regulations 2006 SI (SI2006/3296). Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the agreement.

| | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|
| Profit on ordinary activities before tax | 333 |
| Current tax charge at 21% | 70 |
| Total current tax charge | **70** |

The headline rate of UK corporation tax reduced from 23% to 21% on 1 April 2014 and to 20% on 1 April 2015. A further rate reduction of 2% was announced on 8 July 2015 which will reduce the tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 respectively. The reductions of corporation tax to 19% and 18% were included in the Summer Finance Bill 2015. However, as these were not enacted or substantively enacted at the balance sheet date, there is no impact on the tax balances at 31 March 2015.

## 9) Loan to Originator

| | 2015 £ |
|---|---|
| Opening balance | - |
| Acquisition of Loan to Originator | 913,474,932 |
| Premium on Loan to Originator | 12,496,705 |
| Repayment of Loan to Originator | (536,973,503) |
| Impairment of Loan to Originator | (262,055) |
| | 388,736,079 |

| | |
|---|---|
| The maturity profile of the Loan to Originator is as follows: | |
| In one year or less | 388,736,079 |
| In more than one year | - |
| | 388,736,079 |

The Loan to Originator is held with the intention to sell and as such the maturity profile is all within one year.

## 10) Debtors

| | 2015 £ |
|---|---|
| Prepayments | 30,000 |
| Intercompany receivables | 7,403,509 |
| | 7,433,509 |

Intercompany receivables are interest-free and repayable on demand.

## 11) Creditors

| | 2015 £ |
|---|---|
| **Amounts falling due within one year:** | |
| Accrued interest payable | 320,621 |
| Other creditors | 18,297,219 |
| Corporation tax | 70 |
| | 18,617,910 |
| **Amounts falling due after more than one year:** | |
| Senior Loan | 346,829,052 |
| Sub Note | 72,376,121 |
| Structuring fees | (4,523,794) |
| | 414,681,379 |

The Senior Lenders to the Senior Loan are Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Morgan Stanley Bank, NA. Interest rate on the Senior Loan is LIBOR + 1.5% margin and interest is payable monthly. The Senior Loan matures on 30 January 2018.

The Sub Note interest rate is 10% and interest is payable monthly. The Sub Note matures on 30 January 2045.

## 12) Called up share capital

| | 2015 £ |
|---|---|
| *Called up, issued and fully paid* | |
| 1 ordinary shares of £1 each: 1 fully paid | 1 |
| | 1 |

## 13) Profit and loss account

| | 2015 £ |
|---|---|
| Balance at 15 September 2014 | - |
| Profit for the period | 263 |
| Balance at 31 March | 263 |

## 14) Reconciliation of shareholders' funds

| | 2015 £ |
|---|---|
| Opening shareholders' funds | - |
| Share capital issued | 1 |
| Profit for the period | 263 |
| Closing shareholders' funds | 264 |

## 15) Reconciliation of profit on ordinary activities before taxation to net cash flow from operating activities

| | | Period from 15 September 2014 to 31 March 2015 £ |
|---|---|---|
| Profit on ordinary activities before taxation | | 333 |
| Less: | Interest received on Loan to Originator | (6,755,808) |
| | Interest received on cash at bank | (54,073) |
| | Increase in debtors | (7,433,509) |
| | Prepayment of structuring fees | (4,972,457) |
| Add: | Interest payable on Senior Loan | 2,493,995 |
| | Interest payable on Sub Note | 1,789,830 |
| | Interest payable on interest rate swaps | 123,222 |
| | Impairment of Loan to Originator | 262,055 |
| | Increase in other creditors | 18,297,219 |
| | Structuring fee amortisation | 448,663 |
| Net cash inflow from operating activities | | 4,199,470 |

## 16) Reconciliation of net cash flow to movement in net debt

| | 2015 £ |
|---|---|
| Movement in cash for the period | 37,129,965 |
| Cash flow from debt financing | (947,973,673) |
| Amounts redeemed on the Senior Loan | 485,545,554 |
| Amounts redeemed on the Sub Note | 43,222,946 |
| Change in net debt resulting from cash flows | (382,075,208) |
| Net debt at beginning of the period | - |
| Net debt at 31 March | (382,075,208) |

## 17) *Analysis of changes in net debt*

| | At 15 September 2014 £ | Cash flow £ | At 31 March 2015 £ |
|---|---|---|---|
| Cash at bank and in hand | - | 37,129,965 | 37,129,965 |
| Debt due after one year | - | (419,205,173) | (419,205,173) |
| | - | (382,075,208) | (382,075,208) |

## 18) Parent company and controlling party

The Company's immediate parent company is KMC Mayfair Holdco Limited, a company incorporated in the United Kingdom. The entire issued share capital of KMC Mayfair Holdco Limited is held by the legal parent company, SFM Corporate Services Limited on a discretionary trust basis for the benefit of certain charities.

An affiliate company, Kayl Parent S.à.r.l. (a wholly owned subsidiary of Kayl Holdco S.à r.l. and Kayl Parent S.à r.l.), retains an interest in the cashflows and profits of the company. The largest company into which the Company's financial statements are consolidated are the financial statements of Kayl Parent S.à.r.l and the smallest company into which the Company's financial statements are consolidated are the financial statements of Kayl Holdco S.à.r.l on the basis of control.

Copies of Kayl Parent S.à.r.l consolidated financial statements are available at its registered offices at 6, rue Eugene Ruppert, L-2453 Luxembourg.

## 19) Related party transactions

During the period fees of £20,192 were paid to Structured Finance Management Limited for the provision of corporate administration services provided to the Company. At the period-end £nil fees were accrued.

SFM Corporate Services Limited is a wholly owned subsidiary of Structured Finance Management Limited.

The following transactions with Kayl Parent S.à.r.l group are included in the Company's accounts.

| | 2015<br>£ |
|---|---|
| **Assets** | |
| Loan to Originator | 388,736,079 |
| Intercompany receivables | 7,403,509 |
| | **396,139,588** |
| **Liabilities** | |
| Sub Note | 72,376,121 |
| Deferred consideration | 14,204,219 |
| Intercompany payables | 2,249,927 |
| Accruals payable | 138,804 |
| | **88,969,071** |
| **Profit and loss** | |
| Interest payable on Sub Loan | 1,789,830 |
| Deferred consideration | 14,204,219 |
| Servicing fees | 303,958 |
| | **16,298,007** |

## 20) Events occurring after the balance sheet date

Subsequent to the balance sheet date, in April 2015 there were was a partial repayment of the Senior Loan of £16,977,470. In May 2015 there was a further partial repayment of £5,235,181 and on 8 June 2015 following a sale of £338,359,088 of portion of the Loan to Originator, the remaining balance of the Senior Loan of £324,616,401 was repaid in full.

As at 30 October 2015, the remaining balance at 31 March 2015 of the Sub Note of £72,376,121 was repaid in full following a further partial sale of the Mortgage Loans of £35,053,463.

There are no other significant events occurring after the balance sheet date.