

Company Registration Number 05745753

DECO 8-UK CONDUIT 2 HOLDING LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

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DECO 8-UK CONDUIT 2 HOLDING LIMITED
FOR THE YEAR ENDED 31 MARCH 2012

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DECO 8-UK CONDUIT 2 HOLDING LIMITED

COMPANY INFORMATION

The board of directors	Wilmington Trust SP Services (London) Limited Mr M H Filer Mr J Traynor
Company secretary	Wilmington Trust SP Services (London) Limited
Registered office	c/o Wilmington Trust SP Services (London) Limited 3 rd Floor, 1 King's Arms Yard London EC2R 7AF
Auditor	Deloitte LLP London

DECO 8-UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

The directors have pleasure in presenting their report and the financial statements of the Group, which comprise the results of the Company and its subsidiary Deco 8 – UK Conduit 2 Plc for the year ended 31 March 2012 with comparative figures for the year ended 31 March 2011

PRINCIPAL ACTIVITIES AND ENHANCED BUSINESS REVIEW

The Company's principal activity is to hold an investment in Deco 8 – UK Conduit 2 Plc and hold the Post-Enforcement Call Option and other similar options granted in respect of securities granted by other issuers

The Post-Enforcement Call Option will permit the Company to acquire from the note holders all the notes then outstanding at a price of one penny per note when notice is received from the Issuer Security Trustee

Deco 8 – UK Conduit 1 Plc is a special purpose company established in order to issue floating rate loan notes due April 2018 and January 2036 ("the notes"), to acquire the beneficial interest in a mortgage portfolio from Deutsche Bank AG, London Branch, ("the mortgage loans"), to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 3 May 2006. On 4 May 2006, the Company issued £630,131,634 floating rate loan notes in accordance with the Offering Circular

BUSINESS REVIEW

The key performance indicators of the business are considered to be the net interest margin and impairments. During 2012, the Group achieved a net interest margin (net interest income divided by interest income) of 4.19% (2011 3.91%). At the year end, the Group had net liabilities of £84,625,181 (2011 £57,032,807) due to fair value movement on derivatives and impairments made against the mortgage loans.

RESULTS AND DIVIDENDS

The trading results for the period and the Group's financial position at the end of the year are shown in the attached financial statements.

The loss of the Company for the year amounted to £27,592,374 (2011 £2,294,707). The loss for the year was primarily due to the movement in the fair value of swap £27,711,057 (2011 gain of £5,259,954). The directors have not recommended a dividend (2011 £nil).

DIRECTORS

The directors who served the Company throughout the year were as follows:

Wilmington Trust SP Services (London) Limited

Mr M H Filer

Mr J Traynor

PRINCIPAL RISKS AND UNCERTAINTIES

The directors acknowledge that the global macro-economic indicators and general business environment have improved in the year. However, market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers with whom the Group has exposure through the mortgage loans as economic uncertainty continues to exist in global financial markets.

The Group's financial instruments, other than derivatives, comprise the mortgage loans, cash and cash equivalents, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of the interest bearing borrowings is to acquire the mortgage loans from Deutsche Bank AG, London Branch.

The Group also enters into derivative transactions. The purpose of such transactions is to manage the interest rate risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

The main risks arising from the Group's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing these and the other risks arising on the Group's financial instruments and they are summarised below.

Currency risk

All of the Group's assets and liabilities are denominated in pounds Sterling and therefore there is no foreign currency risk.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar, where this is not possible the Group uses interest rate swaps to mitigate any residual interest rate risk.

Credit risk

Credit risk arises where the borrower will not be able to meet their obligations as they fall due. The mortgage loans are secured on a number of UK commercial properties which are geographically diverse and include a diverse tenant portfolio.

The maximum individual exposure to credit risk is considered to be Lea Valley Limited totalling £220,675,596 (2011 £220,675,596). At 31 March 2012, the gross amount outstanding on all mortgage loans was £551,706,654 (2011 £559,694,442). The mortgage loan portfolio consists of 13 loans secured over 59 properties (2011 14 loans secured over 62 properties).

Refinancing risk

The ability of a borrower to make timely payment of principal due on any loan on the relevant loan maturity date may be dependent upon that borrower's ability to refinance the loan. In the event a borrower cannot refinance before or at the loan maturity date, repayment may be delayed and in some circumstances the collateral which would be enforced and sold, or in the case that the charged property is sold at a value below the then outstanding principal of the loan, repayment of the loan may be made at below par. In such circumstances, the Group would be unable to repay certain classes of notes in full.

If in the event of the loans not being able to be repaid, the notes would be written down starting from the lowest class of note, G, to the highest class of note, A1.

Impairment

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

The Challenge and Wrencote loan has been in special servicing since April 2010. In April 2011, £1,472,723 was recovered from the sale of the remaining collateral to the loan. The remaining gross loan balance of £1,522,136 was fully written off. The loan had accumulated provision for impairment of £1,467,761 (2011 £1,467,761). During the year, the Company has released impairment provisions against two other loans, £76,122 out of accumulated provision for impairment against The Rowan UK Commercial Property and £93,515 out of accumulated provision for impairment against MPH (UK). This reversal is based upon the management's estimate of indexed market values of the underlying properties which were last independently valued during 2011.

Two other loans, Lea Valley Limited and Mapeley II with closing balances of £220,675,596 (2011 £220,675,596) and £193,689,440 (2011 £196,659,232) respectively, are secured by properties with estimated market values (based on indexation of the property valuations on origination of those loans in 2006) significantly below the carrying values of the loans. However, since the loans continue to perform, no impairment has been noted and therefore no impairment is booked.

Since year end two loans, Mannheim Wigmore LLC and Mannheim Albemarle LLC matured and repaid in July 2012.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

Liquidity risk

A facility provided by Danske Bank A/S (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. The liquidity facility was renewed on 19 March 2012 to expire on 26 April 2013. The directors expect this facility to be renewed annually. Further discussion of the Company's approach to financial instruments is set out in note 13.

FUTURE DEVELOPMENTS

The directors do not expect any significant changes in the operating activities of the Group or Company in the future.

CREDITOR PAYMENT POLICY

The Group's policy concerning payment of its trade creditors is to pay in accordance with its contractual and other legal obligations. Due to the nature of the business, the main creditors are the note-holders. Principal and interest is repaid quarterly in accordance with the agreements in place. The Group does not follow any other code or standard on payment practice.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them as auditor for the ensuing year will be proposed at the next annual general meeting.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each of the directors have taken all steps that they ought to have 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 s418 of the Companies Act 2006.

Signed by order of the directors



Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED,
Director
Date 26 September 2012

DECO 8-UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2012

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

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 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 DECO 8-UK CONDUIT 2 HOLDING LIMITED

We have audited the financial statements of Deco 8-UK Conduit 2 Holding Limited for the year ended 31 March 2012 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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 group's and the parent 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 with the audited financial statements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

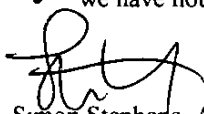
- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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.



Simon Stephens, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 September 2012

DECO 8-UK CONDUIT 2 HOLDING LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 MARCH 2012**

	Notes	2012 £	2011 £
Continuing operations			
Interest income	2	28,036,044	29,493,748
Interest expense	3	<u>(26,860,517)</u>	<u>(28,341,468)</u>
Net interest income		1,175,527	1,152,280
Fair value (loss)/gain on derivative financial instruments	12	(27,711,057)	5,259,954
Impairment reversal/(charge) to mortgage loans	6	115,262	(7,557,479)
Other operating expenses	4	<u>(1,172,723)</u>	<u>(1,149,329)</u>
Loss before tax for the year		(27,592,991)	(2,294,574)
Income tax (charge)/credit	5	<u>617</u>	<u>(133)</u>
Loss after tax for the year attributable to equity holders		(27,592,374)	(2,294,707)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(27,592,374)</u>	<u>(2,294,707)</u>

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 MARCH 2012**

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Mortgage loans	7	411,677,248	494,433,222
Current assets			
Mortgage loans	7	132,976,692	56,571,122
Trade and other receivables	8	4,819,565	5,164,754
Cash and cash equivalents	9	248,092	468,243
		<u>138,044,349</u>	<u>62,204,119</u>
Total assets		<u>549,721,597</u>	<u>556,637,341</u>
Equity			
Share capital	10	1	1
Retained losses	10	(84,625,182)	(57,032,808)
Total deficit		<u>(84,625,181)</u>	<u>(57,032,807)</u>
Non-current liabilities			
Interest-bearing loans	11	424,131,067	507,051,345
Total non-current liabilities		<u>424,131,067</u>	<u>507,051,345</u>
Current liabilities			
Interest-bearing loans	11	132,976,692	56,571,122
Accrued interest	11	1,442,268	1,740,176
Trade and other payables	12	3,477,430	3,660,565
Derivative financial instruments	14	72,250,242	44,539,185
Liquidity drawdown		69,079	106,973
Current tax liability		-	782
Total current liabilities		<u>210,215,711</u>	<u>106,618,803</u>
Total liabilities		<u>634,346,778</u>	<u>613,670,148</u>
Total equity and liabilities		<u>549,721,597</u>	<u>556,637,341</u>

These financial statements of Deco 8 – UK Conduit 2 Holding Limited, Company Registration 05745753 on pages 7 to 28 were approved by the directors and authorised for issue on 26 September 2012 and are signed on their behalf by



Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
Director

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 MARCH 2012**

	Notes	2012 £	2011 £
Non-current asset			
Investment in subsidiary	6	<u>12,501</u>	<u>12,501</u>
Current assets			
Cash and cash equivalents	9	<u>1</u>	<u>1</u>
Total assets		<u>12,502</u>	<u>12,502</u>
Equity			
Share capital	10	1	1
Retained profit	10	<u>10,126</u>	<u>10,126</u>
Total equity		<u>10,127</u>	<u>10,127</u>
Current liabilities			
Other payable		2,375	2,375
Current tax liability		<u>-</u>	<u>-</u>
Total current liabilities		<u>2,375</u>	<u>2,375</u>
Total liabilities		<u>2,375</u>	<u>2,375</u>
Total equity and liabilities		<u>12,502</u>	<u>12,502</u>

These financial statements of Deco 8 – UK Conduit 2 Holding Limited, Company Registration 05745753 on pages 7 to 28 were approved by the directors and authorised for issue on 26 September 2012 and are signed on their behalf by



Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
Director

The notes on pages 14 to 28 form part of these financial statements

DECO 8–UK CONDUIT 2 HOLDING LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 MARCH 2012**

	Share Capital £	Retained loss £	Total equity £
Balance at 1 April 2010	1	(54,738,101)	(54,738,100)
Loss for the year	-	(2,294,707)	(2,294,707)
Other comprehensive income for the year 31 March 2011	-	-	-
Balance at 31 March 2011	<u>1</u>	<u>(57,032,808)</u>	<u>(57,032,807)</u>
	Share capital £	Retained loss £	Total equity £
Balance at 1 April 2011	1	(57,032,808)	(57,032,807)
Loss for the year	-	(27,592,374)	(27,592,374)
Other comprehensive income for the year 31 March 2012	-	-	-
Balance at 31 March 2012	<u>1</u>	<u>(84,625,182)</u>	<u>(84,625,181)</u>

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED**COMPANY'S STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 MARCH 2012**

	Share Capital £	Retained earnings £	Total equity £
Balance at 1 April 2010	1	10,126	10,127
Loss for the year	-	-	-
Other comprehensive income for the year 31 March 2011	-	-	-
Balance at 31 March 2011	<u>1</u>	<u>10,126</u>	<u>10,127</u>

	Share capital £	Retained earnings £	Total equity £
Balance at 1 April 2011	1	10,126	10,127
Loss for the year	-	-	-
Other comprehensive income for the year 31 March 2012	-	-	-
Balance at 31 March 2012	<u>1</u>	<u>10,126</u>	<u>10,127</u>

The notes on pages 13 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Loss before tax for the year		(27,592,991)	(2,294,574)
<i>Adjustments for</i>			
Fair value movement on derivative financial instruments		27,711,057	(5,259,954)
Impairments to loans		(115,262)	7,557,479
Bank interest receivable	2	(710)	(908)
Decrease in trade and other receivables	8	345,190	81,753
Decrease in trade and other payables	11,12	<u>(481,045)</u>	<u>(914,428)</u>
Net cash from operating activities		(133,761)	(830,632)
Tax paid		<u>(165)</u>	<u>(419)</u>
		(133,926)	(831,049)
Cash flows from investing activities			
Repayments of mortgage loans received during the year	7	6,465,667	14,178,512
Bank interest received	2	<u>710</u>	<u>908</u>
Net cash from investing activities		<u>6,466,377</u>	<u>14,179,420</u>
Cash flows used in financing activities			
Liquidity facility drawdown		(37,894)	106,973
Repayments of interest bearing loan notes during the year	11	<u>(6,514,708)</u>	<u>(14,178,512)</u>
Net cash used in financing activities		<u>(6,552,602)</u>	<u>(14,071,539)</u>
Net (decrease) in cash and cash equivalents		(220,151)	(723,170)
Cash and cash equivalents at beginning of year		<u>468,243</u>	<u>1,191,413</u>
Cash and cash equivalents at 31 March 2012	9	<u>248,092</u>	<u>468,243</u>

Actual cash received and paid as interest income and interest expense during the year was £11,408,545 (2011 £11,471,838) and £7,423,712 (2011 £8,881,704) respectively

(As explained in the accounting policies note on page 16, the cash is not freely available to be used)

DECO 8-UK CONDUIT 2 HOLDING LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Profit before tax for the year		<u>-</u>	<u>-</u>
Net cash from operating activities		-	-
Net cash used in investing activities		-	-
Net cash from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		<u>1</u>	<u>1</u>
Cash and cash equivalents at 31 March 2012	9	<u><u>1</u></u>	<u><u>1</u></u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Deco 8-UK Conduit 2 Holding Limited is a Company incorporated in Great Britain under the Companies Act 2006 and domiciled in England

Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union

The accounting policies set out below have been applied in respect of the financial year ended 31 March 2012 and for the previous financial year

Basis of preparation

The financial statements are presented in Pounds Sterling. The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial instruments under IAS 39 Financial Instruments Recognition and Measurement.

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use interest income and interest expense rather than turnover and cost of sales in preparing the statement of comprehensive income.

Basis of preparation – going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Directors' Report on pages 2 and 3. In addition, note 13 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group has a net liability position on the balance sheet due to the cumulative impairment on the loans and the fair value movement of the derivatives. However, the terms of the loan notes issued by the Group and associated securitisation arrangements are such that amounts due are only payable to the extent that there are sufficient receipts from the Group's assets. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Company statement of comprehensive income

As permitted by section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements. The Company's result for the financial year was £nil (2011: £nil).

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (the Subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

- Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities.

- Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses, in particular for the fair value of derivatives and the recoverability of assets. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements and carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both the current and future years.

Financial instruments

The Group's financial instruments comprise the mortgage loans, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to acquire a beneficial interest in a mortgage portfolio. These interest bearing borrowings are classified in accordance with the principles of IAS 39 *Financial Instruments: Recognition and Measurement* as described below.

Mortgage loans

The mortgage loans and interest receivable thereon are classified as loans and receivables. The acquisition in the beneficial interest of the mortgage loans is initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method.

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Deferred consideration

A deferred consideration charge is included in interest expense. Deferred consideration is payable to the Class X certificate holders dependent on the extent to which the surplus income, in excess of the agreed margin, generated by the mortgage loans in which the Company has purchased an interest, exceeds the administration costs of the mortgage loans. Deferred consideration is recognised on an accruals basis.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are classified as loans and receivables.

The Group has deposits in bank accounts held in the Group's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

Derivative financial instruments and hedging activities

Derivative financial instruments are classified as at fair value through profit and loss. The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the balance sheet. All derivatives have been designated at fair value through profit and loss. Hence, subsequent to initial recognition, any changes in fair value of the derivatives held are recognised in the statement of comprehensive income.

The fair value of interest rate swaps and basis swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Interest income receivable or interest expense on the interest rate swap is accounted for on an effective interest rate basis within interest income or interest expense in the statement of comprehensive income.

Interest-bearing loans

Interest-bearing loans are classified as financial liabilities held at amortised cost and are hence recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and interest payable thereon are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Embedded derivatives

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the statement of comprehensive income. Depending on the classification of the host instrument, the host is then measured in accordance with IAS 39.

Interest income and expense

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Value added tax

Value added tax is not recoverable by the Group and is included with its related cost.

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax expense

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Standards issued but not adopted

The adoption of Standards and Interpretations issued by the International Accounting Standards Board (IASB) that were effective for the current year has not had a material impact on the financial statements of the Company. At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Name of new Standards/amendments	Effective date
Annual Improvements to IFRSs 2009-2011 Cycle (May 2012)	1 January 2013
Amendments to IAS 1 (June 2011) Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 27 (revised May 2011) Separate Financial Statements	1 January 2013
IAS 28 (revised May 2011) Investments in Associates and Joint Ventures	1 January 2013
Amendments to IAS 32 (Dec 2011) Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRS 7 (Dec 2011) Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 7 (Oct 2010) Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013

The directors are currently considering the potential impact of the adoption of IFRS 9 and IFRS 13 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining Standards above will have any material impact on the amounts reported in these financial statements.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segmental reporting

The principal asset of the Group is the beneficial interest in the mortgage portfolio originated in the United Kingdom which is funded by floating rate notes issued in the United Kingdom. As such the entity has one reportable operating segment and geographical area. The directors do not consider it necessary to provide a further analysis of the results of the Group from those already disclosed in these financial statements.

2. INTEREST INCOME

	2012 Group £	2011 Group £
Income from mortgage loans	28,035,334	29,492,840
Bank interest received	710	908
	<u>28,036,044</u>	<u>29,493,748</u>

3. INTEREST EXPENSE

	2012 Group £	2011 Group £
Interest on loan notes	7,125,802	6,994,559
Net swap interest payable	17,792,863	19,761,541
Deferred consideration	1,941,852	1,585,368
	<u>26,860,517</u>	<u>28,341,468</u>

4. OPERATING EXPENSES

	2012 Group £	2011 Group £
Administration and cash management fees	1,123,388	1,102,457
Audit fees for the audit of the Company's accounts	25,650	25,955
Audit fees for audit of subsidiary's accounts	2,350	2,350
Tax fees paid to the auditor for taxation services provided	8,880	8,225
Corporate services fees	12,455	10,342
	<u>1,172,723</u>	<u>1,149,329</u>

Other than the fees received for the provision of corporate services as detailed in note 15, the directors received no emoluments for their services as directors to the Group during the period. The directors had no material interest in any contract of significance in relation to the business of the Group (2011: none). The Group did not have any employees in the current year or in the previous year.

5. INCOME TAX EXPENSE

The subsidiary, Deco 8-UK Conduit 2 Plc, has elected to be taxed under the Taxation of Securitisation Companies 2006 (Regulations). Corporation tax is therefore calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

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

The subsidiary is therefore taxed by reference to the profit required to be retained in accordance with the pre-enforcement priority of payments as defined in the terms and conditions of the loan notes.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

5 INCOME TAX EXPENSE (CONTINUED)

	2012 Group £	2012 Company £	2011 Group £	2011 Company £
Current tax:				
Corporation tax charge for the year at a rate of 20% (2011 21%)	-	-	619	-
Adjustment to the prior year	<u>617</u>	-	<u>(486)</u>	-
Total income tax charge in statement of comprehensive income	<u>617</u>	<u>-</u>	<u>133</u>	<u>-</u>
Reconciliation of total tax charge				
	2012 Group £	2012 Company £	2011 Group £	2011 Company £
Loss before tax multiplied by the standard rate of corporation tax in the UK 20% (2011 21%)	5,518,475	-	(481,861)	-
Adjustment in respect of the prior year	<u>(617)</u>	-	<u>(486)</u>	-
Tax adjustment on fair value movement	<u>(5,517,858)</u>	-	<u>482,347</u>	-
Total tax credit/(charge) for the year	<u>617</u>	<u>-</u>	<u>133</u>	<u>-</u>

6. INVESTMENT IN SUBSIDIARY

	2012 £	2011 £
Company		
At 1 April 2011 and 31 March 2012	<u>12,501</u>	<u>12,501</u>

The shares were purchased at par for cash consideration of £12,501 and the net assets of the subsidiary were £12,501 at this date (comprising only cash on issuance of shares), hence no goodwill arose on acquisition. In the opinion of the directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Shares in group undertakings

The Company has the following interests in group undertakings

Subsidiary undertakings	Country of incorporation	Class of shares	Holding (%)
Deco 8 – UK Conduit 2 Plc	Great Britain	Ordinary	99.98

Principal activity

Deco 8 – UK Conduit 2 Plc was established as a special purpose vehicle for the sole purpose of issuing commercial mortgage-backed loan notes secured by a pool of commercial mortgages.

7. MORTGAGE LOANS

	2012 £	2011 £
Group		
At the start of year	551,004,345	572,740,335
Redemptions	(6,465,667)	(14,178,512)
Impairments	<u>115,262</u>	<u>(7,557,478)</u>
At 31 March	<u>544,653,940</u>	<u>551,004,345</u>
The balance can be analysed as follows		
Current assets	132,976,692	56,571,122
Non-current assets	<u>411,677,248</u>	<u>494,433,223</u>
	<u>544,653,940</u>	<u>551,004,345</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

7. MORTGAGE LOANS (CONTINUED)

The mortgage loans are due for repayment between April 2012 and April 2016. At 31 March 2012, the fixed rate of interest on the mortgage loans ranged from 5.37% to 6.4% (2011: 5.3756% to 6.33%). The loan is secured over commercial properties in the UK.

The Challenge and Wrencote loan has been in special servicing since April 2010. In April 2011, £1,472,723 was recovered from the sale of the remaining collateral to the loan. The remaining gross loan balance of £1,522,136 was fully written off. The loan had accumulated provision for impairment of £1,467,761 (2011: £1,467,761). During the year, the Company has released impairment provision against two other loans, £76,122 out of accumulated provision of impairment against The Rowan UK Commercial Property and £93,515 out of accumulated provision of impairment against MPH (UK). This reversal is based upon the management estimate of indexed market values of the underlying properties.

Two other loans, Lea Valley Limited and Mapeley II with closing balances of £220,675,596 (2011: £220,675,596) and £193,689,440 (2011: £196,659,232) respectively, are secured by properties with estimated market values (based on indexation) significantly below the carrying values of the loans. However, since the loans continue to perform, no impairment has been noted and therefore no impairment is booked.

Since year end two loans, Mannheim Wigmore LLC and Mannheim Albemarle LLC matured and repaid in July 2012.

8. TRADE AND OTHER RECEIVABLES

	Group	Company	Group	Company
	2012	2012	2011	2011
	£	£	£	£
Other debtors	31,332	-	21,303	-
Prepayments and accrued income	<u>4,788,233</u>	<u>-</u>	<u>5,143,451</u>	<u>-</u>
	<u>4,819,565</u>	<u>-</u>	<u>5,164,754</u>	<u>-</u>

The directors consider that the carrying value of trade and other receivables approximate their fair value.

9. CASH AND CASH EQUIVALENTS

Withdrawals from the Group's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements.

	Group	Company	Group	Company
	2012	2012	2011	2011
	£	£	£	£
Cash and cash equivalents	<u>248,092</u>	<u>1</u>	<u>468,243</u>	<u>1</u>

The Group has deposits in bank accounts held in the Group's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

10. TOTAL EQUITY

Group	Issued share capital £	Retained losses £	Total £
Balance at 31 March 2010	1	(54,738,101)	(54,738,100)
Loss after tax for the year	-	(2,294,707)	(2,294,707)
Balance at 31 March 2011	1	(57,032,808)	(57,032,807)
Loss after tax for the year	-	(27,592,374)	(27,592,374)
Balance at 31 March 2012	1	(84,625,182)	(84,625,181)

Company	Issued share capital £	Retained profit £	Total £
Balance at 31 March 2010	1	10,126	10,127
Profit after tax for the year	-	-	-
Balance at 31 March 2011	1	10,126	10,127
Profit after tax for the year	-	-	-
Balance at 31 March 2012	1	10,126	10,127

There are 100 authorised ordinary shares of £1 each. The issued share capital comprises one allotted £1 share called up and fully paid at par. Wilmington Trust SP Services (London) Limited holds the share under a declaration of trust for charitable purposes.

11. INTEREST-BEARING LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 13.

	Group 2012 £	Group 2011 £
Non-current liabilities		
Loan notes	424,131,067	507,051,345
	<u>424,131,067</u>	<u>507,051,345</u>
Current liabilities		
Loan notes	132,976,692	56,571,122
Interest payable on loan notes	1,442,268	1,740,176
Liquidity drawdown	69,079	106,973
	<u>134,488,039</u>	<u>58,418,271</u>

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled in order of priority in accordance with the Offering Circular.

On 4 May 2006 an agreement was entered into with Danske Bank A/S (London Branch) for the provision of a liquidity facility for the Company. The facility is in place to allow the Company to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loans. At the balance sheet date, the limit on this facility was £37,870,140. A fee is charged on the undrawn balance, currently set out at 1.089% per annum. This fee would increase on any drawn balance. The liquidity facility is secured by way of fixed and floating charges over the Company's assets including the mortgage loans.

Interest-bearing loans and borrowings are repayable as follows:

Year ended 31 March 2012	Total £	Less than 1 year £	1-2 years £	2-5 years £	More than 5 years £
Liabilities					
Floating rate notes due 2018 and 2036	557,107,759	132,976,692	6,586,511	417,544,556	-
Interest payable	1,442,268	1,442,268	-	-	-
	<u>558,550,027</u>	<u>134,418,960</u>	<u>6,586,511</u>	<u>417,544,556</u>	<u>-</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

11. INTEREST-BEARING LOANS (Continued)

Year ended 31 March 2011	Total £	Less than 1 year £	1-2 years £	2-5 years £	More than 5 years £
Liabilities					
Floating rate notes due 2018 and 2036	563,622,467	56,571,122	90,971,612	26,269,891	389,809,842
Interest payable	<u>1,740,176</u>	<u>1,740,176</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>565,362,643</u>	<u>58,311,298</u>	<u>90,971,612</u>	<u>26,269,891</u>	<u>389,809,842</u>

The loan notes are denominated in the following currencies

	2012 £	2011 £
Sterling	<u>557,107,759</u>	<u>559,694,458</u>

On 4 May 2006, the Group issued £200,000,000 Class A1 notes due April 2018, £256,600,000 Class A2 notes due January 2036, £32,400,000 Class B notes due January 2036, £34,000,000 Class C notes due January 2036, £23,500,000 Class D notes due January 2036, £61,100,000 Class E notes due January 2036, £14,200,000 Class F notes due January 2036 and £8,331,634 Class G notes due January 2036. Interest on the Class A1 notes is payable at a rate of 3 month LIBOR plus 0.18%. Interest on the Class A2 notes is payable at a rate of 3 month LIBOR plus 0.24%. Interest on the Class B notes is payable at a rate of 3 month LIBOR plus 0.33%. Interest on the Class C notes is payable at a rate of 3 month LIBOR plus 0.48%. Interest on the Class D notes is payable at a rate of 3 month LIBOR plus 0.65%. Interest on the Class E notes is payable at a rate of 3 month LIBOR plus 1.10%. Interest on the Class F notes is payable at a rate of 3 month LIBOR plus 1.40%. Interest on the Class G notes is payable at a rate of 3 month LIBOR plus 3.75%.

At the balance sheet date £128,352,391 (2011 £134,818,058) in respect of the Class A1 notes was outstanding, £255,808,228 (2011 £255,808,228) in respect of Class A2 notes, £32,300,026 (2011 £32,300,026) in respect of Class B notes, £33,895,089 (2011 £33,895,089) in respect of Class C notes, £23,427,488 (2011 £23,427,488) in respect of the Class D notes, £60,911,468 (2011 £60,911,468) in respect of Class E notes, £14,156,184 (2011 £14,156,184) in respect of F notes and £8,256,970 (2011 £8,305,926) in respect of Class G notes. The notes are secured by way of a fixed and floating charge over the assets of the Company. The proceeds of the notes were used by the Company to acquire the mortgage loan from Deutsche Bank AG in accordance with the terms of the securitisation documents.

The undiscounted contractual cash flows for interest payable on the notes to maturity as at 31 December is as follows

	Less than one year £	1 year – 5 years £	Over 5 years £	Total £
31 March 2012	<u>26,961,523</u>	<u>67,398,199</u>	<u>-</u>	<u>94,359,722</u>
31 March 2011	<u>30,238,337</u>	<u>94,530,812</u>	<u>5,350,986</u>	<u>130,120,136</u>

12. TRADE AND OTHER PAYABLES

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Current liabilities				
Other payable	-	2,375	-	2,375
Accruals and deferred income	<u>3,477,429</u>	<u>-</u>	<u>3,660,565</u>	<u>-</u>
	<u>3,477,429</u>	<u>2,375</u>	<u>3,660,565</u>	<u>2,375</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

12. TRADE AND OTHER PAYABLES (CONTINUED)

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled, in order of priority in accordance with the Offering Circular

The directors consider that the carrying amount of trade and other payables approximates to their fair value

13. PRINCIPAL RISK AND UNCERTAINTIES

Financial risk management

The Group's financial instruments, other than derivatives, comprise mortgage loans, cash and liquid resources, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The Group also enters into derivative transactions (principally interest rate swaps). The purpose of such transactions is to manage the interest rate risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken.

The principal risk and uncertainties are set out in the Directors' Report on pages 2 to 3.

Currency risk

All of the Group's assets and liabilities are denominated in pounds sterling therefore there is no foreign currency risk.

Credit risk

Credit risk arises where the borrower will not be able to meet their obligations as they fall due. The mortgage loans are secured on a number of UK commercial properties which are geographically diverse and include a diverse tenant portfolio.

The most significant concentration of credit risk is considered to be the mortgage loans to Lea Valley Limited totalling £220,675,596 (2011: £220,675,596) which equals 40% of the total portfolio. The maximum exposure to credit risk is the balance sheet amount.

The credit quality of the underlying mortgage loans is summarised as follows:

	31 March 2012	31 March 2011
	£	£
Neither past due nor impaired	531,016,529	537,582,122
Past Due but not impaired	1,656,992	-
Impaired	19,033,117	22,112,320
	551,706,638	559,694,442
Less: allowance for impairment	(7,052,698)	(8,690,097)
	544,653,940	551,004,345

With regard to credit risk on derivatives, the directors monitor the credit rating of the swap provider and in case of any downgrade may require the swap provider to provide sufficient collateral or transfer its obligations to another bank of the better credit rating.

Interest rate risk profile of financial liabilities

Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time. The Group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Interest rate swaps have been entered into with Deutsche Bank AG to manage the Group's exposure to interest rate risk associated with the mortgage loans. This is to reduce interest rate risk as a result of the possible variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the floating rate loan notes.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Interest rate sensitivity

The sensitivity of the Company to interest rate changes and the resulting changes in net assets attributable to shareholders' equity is limited as the Group uses interest rate swaps to mitigate the risk and only retains 0.01% of available revenue receipts from the beneficial interest in the mortgage portfolio

Liquidity risk

A facility provided by Danske Bank A/S (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Group being unable, on a temporary basis, to meet its financial commitments

During the year ended 31 March, the Company repaid £37,894 and the remainder of £69,079 was payable at year end. The liquidity facility was renewed on 19 March 2012 to expire on 26 April 2013. The directors expect this facility to be renewed annually.

The tenor of the floating rate notes is designed to match the term of the limited recourse notes and hence, there are deemed to be limited liquidity risks facing the Group.

The table below reflects the undiscounted contractual cash flows of financial liabilities at the balance sheet date of non-derivative financial instruments.

As at 31 March 2012	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within one year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Notes	557,107,759	551,706,654	18,031,273	114,945,419	418,729,962	-
Interest payable on Notes	1,740,176	60,402,291	1,874,761	5,624,283	29,996,176	-
Liquidity draw down	69,079	69,079	69,079	-	-	-
Total non-derivative financial instruments	558,917,014	612,178,024	19,975,113	120,569,702	448,726,138	-

As at 31 March 2011	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Notes	59,694,458	559,694,458	19,044,214	37,526,908	117,241,503	385,881,833
Interest payable on Notes	1,740,176	60,402,291	1,948,461	5,845,383	31,175,376	21,433,071
Liquidity draw down	106,973	106,973	106,973	-	-	-
Total non-derivative financial instruments	561,541,607	620,203,722	21,099,648	43,372,291	148,416,879	407,314,904

The redemption of the notes is dependent on the receipt of payments on the loan notes. In accordance with the respective Prospectus for each of the notes, Class A notes will be redeemed in priority to redemption of the remaining classes of notes followed by Class B, C, D, E and G. Interest payable on floating rate notes was estimated based on the floating rate amounts as at 31 March 2012.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 11 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the balance sheet.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

Group	Notes	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Mortgage loan	7	538,669,082	389,006,814	551,004,344	441,916,599
Trade and other receivables	8	4,819,364	4,819,364	5,164,754	5,164,754
Cash and cash equivalents	9	248,092	248,092	468,243	468,243
		<u>543,736,538</u>	<u>394,074,270</u>	<u>556,637,341</u>	<u>447,549,596</u>
Group					
Interest-bearing loans	11	557,107,844	316,756,573	563,622,467	397,377,414
Interest payable	11	1,442,268	1,442,268	1,740,176	1,740,176
Liquidity draw down		69,079	69,079	106,973	106,973
Trade and other payables	12	3,477,430	3,477,430	3,660,565	3,660,565
Derivative financial instruments	14	72,250,242	72,250,242	44,539,185	44,539,185
		<u>634,346,863</u>	<u>393,995,592</u>	<u>613,669,366</u>	<u>447,424,313</u>
Company					
	Notes	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Cash and cash equivalents	9	1	1	1	1
		<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Intercompany balance		2,375	2,375	2,375	2,375
		<u>2,375</u>	<u>2,375</u>	<u>2,375</u>	<u>2,375</u>

Fair value hierarchy

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability as follows

Level 1 - valued using quoted prices in active markets for identical assets or liabilities

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data. The valuation techniques used by the company are explained in the accounting policies note

The only financial instruments held at fair value on the balance sheet are derivatives. The derivatives all fall within the level 2 fair value hierarchy. The fair value of the derivatives is determined by discounting the future cash flows using the applicable yield curves derived from quoted interest rates.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Effective interest rates and repricing analysis

The following table details the Company's exposure to interest rate risk by the earlier of contractual maturities or re-pricing

Group	Effective interest rate	Floating rate	Non interest -bearing	Fixed rate	Total
31 March 2012	(%)	£	£		£
Assets					
Mortgage loan	5.05	-	-	538,669,082	538,669,082
Trade and other receivables		-	4,819,564	-	4,819,564
Cash and cash equivalents		<u>248,092</u>	<u>-</u>	<u>-</u>	<u>248,092</u>
		<u>248,092</u>	<u>4,819,564</u>	<u>538,669,082</u>	<u>543,736,738</u>
Liabilities					
Interest bearing loans	1.28	557,107,759	-	-	557,107,759
Interest payable		-	1,442,268	-	1,442,268
Trade and other payables		-	3,477,430	-	3,477,430
Derivative financial instruments		72,250,242	-	-	72,250,242
Liquidity drawdown		69,079	-	-	69,079
Current tax liability		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>629,427,080</u>	<u>4,919,698</u>	<u>-</u>	<u>634,346,778</u>
Group	Effective interest rate	Floating rate	Non interest -bearing	Fixed rate	Total
31 March 2011	(%)	£	£		£
Assets					
Mortgage loan	5.56	-	-	551,004,345	551,004,345
Trade and other receivables		-	5,164,754	-	5,164,754
Cash and cash equivalents		<u>468,243</u>	<u>-</u>	<u>-</u>	<u>468,243</u>
		<u>468,243</u>	<u>5,164,754</u>	<u>551,004,345</u>	<u>556,637,342</u>
Liabilities					
Interest bearing loans	1.12	563,622,467	-	-	563,622,467
Interest payable		-	1,740,176	-	1,740,176
Trade and other payables		-	3,660,565	-	3,660,565
Derivative financial instruments		44,539,185	-	-	44,539,185
Liquidity drawdown		106,973	-	-	106,973
Current tax liability		<u>-</u>	<u>782</u>	<u>-</u>	<u>782</u>
		<u>608,268,625</u>	<u>5,401,523</u>	<u>-</u>	<u>613,670,148</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

	1 to 3 months	Non interest - bearing	Total
Company			
31 March 2012			
Assets	£	£	£
Investments	-	12,501	12,501
Cash and cash equivalents	<u>1</u>	<u>-</u>	<u>1</u>
	<u><u>1</u></u>	<u><u>12,501</u></u>	<u><u>12,502</u></u>
Liabilities			
Other payable	<u>-</u>	<u>2,375</u>	<u>2,375</u>
	<u><u>-</u></u>	<u><u>2,375</u></u>	<u><u>2,375</u></u>
Company	1 to 3 months	Non interest - bearing	Total
31 March 2011			
Assets	£	£	£
Investments	-	12,501	12,501
Cash and cash equivalents	<u>1</u>	<u>-</u>	<u>1</u>
	<u><u>1</u></u>	<u><u>12,501</u></u>	<u><u>12,502</u></u>
Liabilities			
Current tax liability	<u>-</u>	<u>2,375</u>	<u>2,375</u>
	<u><u>-</u></u>	<u><u>2,375</u></u>	<u><u>2,375</u></u>

14. DERIVATIVE FINANCIAL INSTRUMENTS

The net fair values of derivative financial instruments at the balance sheet date were

	Group 2012	Company 2012	Group 2011	Company 2011
	£	£	£	£
Interest rate swaps and basis swaps	<u>(77,250,242)</u>	<u>-</u>	<u>(44,539,185)</u>	<u>-</u>

The Company pays a fixed rate ranging from 4.6% to 4.978% (2011: 4.6% to 4.978%) and receives 3-month LIBOR

In accordance with IAS 39 'Financial instruments: Recognition and measurement', the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. In relation to the floating rate notes the Company has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the floating rate notes exercisable on certain dates. The option constitutes an embedded derivative, however, as this is closely related to the underlying host contract (the floating rate notes) as set out in IAS 39, the option does not require separation. A similar hybrid instrument arises on the mortgage loan whereby the Company has effectively sold a put option on the mortgage loan exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The table below reflects the undiscounted contractual cash flows of derivative financial instruments at the statement of financial position date

	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years
As at 31 March 2012	£	£	£	£	£
	72,250,242	77,494,857	983,572	13,315,037	43,196,249
As at 31 March 2011	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years
	£	£	£	£	£
	44,539,185	74,096,484	1,004,650	13,706,226	59,385,608

15. RELATED PARTY TRANSACTIONS

The Group is a special-purpose vehicle controlled by its Board of directors, which comprises three directors, Wilmington Trust SP Services (London) Limited, Mr J Traynor, and Mr M H Filer. Mr M H Filer, a director of the Company, is also a director of Wilmington Trust SP Services (London) Limited. The Group pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The fees payable to these directors for their services for the year ended on 31 March 2012 amounted to £12,455 (2011: £10,342) including irrecoverable VAT. At the end of year, an amount of £1,673 (2011: £1,733) was outstanding and is included within current liabilities: trade and other payables.

During the year, accounting services amounting to £6,115 (2011: £4,200) were charged by Wilmington Trust SP Services (London) Limited. At 31 March 2012, an amount of £4,997 (2011: £8,400) was outstanding and disclosed within current liabilities: trade and other payables.

16. ULTIMATE PARENT UNDERTAKING

Deco 8-UK Conduit 2 Holding Limited is a company registered in England and Wales.

Wilmington Trust SP Services (London) Limited holds one share in Deco 8-UK Conduit 2 Holding Limited under a declaration of trust for charitable purposes. The registered office of Wilmington Trust SP Services is given on page 1.

The Group is the smallest and largest group into which the Company is consolidated.

17. POST BALANCE SHEET EVENT

There were no significant post balance sheet events to report.