Company Registration Number 05745753

DECO 8 – UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

DECO 8 – UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT AND ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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DECO 8 – UK CONDUIT 2 HOLDING LIMITED

COMPANY INFORMATION

The board of directors	Mr Graham Cox (appointed on 28 September 2012) Mr Graham Hodgkin (appointed on 28 September 2012) Wilmington Trust SP Services (London) Limited (resigned on 28 September 2012) Mr M H Filer (resigned on 28 September 2012) Mr J Traynor (resigned on 28 September 2012)
Company secretary	Wilmington Trust SP Services (London) Limited (resigned on 28 September 2012) Jodie Osborne (appointed on 28 September 2012)
Registered office	*Previously up to 28 September 2012* c/o Wilmington Trust SP Services (London) Limited Third Floor 1 King's Arms Yard London EC2R 7AF United Kingdom *From 28 September 2012 onwards* c/o Deutsche Bank AG, London Branch Winchester House Mailstop 428 1 Great Winchester Street London EC2N 2DB United Kingdom
Auditor	Deloitte LLP London United Kingdom

DECO 8 – UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2013

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 2013 with comparative figures for the year ended 31 March 2012

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 2 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 the year ended 31 March 2013, the Group achieved a net interest margin (net interest income divided by interest income) of 4 59% (2012 4 19%) At the year end, the Group had net liabilities of £246,654,549 (2012 £84,625,181) primarily as a result of the fair value liability on the derivative financial instruments totalling £72,782,592 (2012 £72,250,242) and cumulative impairments on the mortgage loans of £174,001,987 (2012 £12,502,861)

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

The loss of the Group for the year after tax amounted to £162,029,368 (2012 loss of £27,592,374) The loss for the year was primarily due to the impairment to loans of £161,499,126 (2012 impairment reversal of £115,262) and also due to the negative movement in the fair value of swap £532,350 (2012 loss of £27,711,057) The directors have not recommended a dividend (2012 £nil)

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

FINANCIAL INSTRUMENTS, 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

The Group's financial instruments other than derivatives, comprise the mortgage loans, cash and cash equivalents, loan notes and various receivables and payables that arise directly from its operations The main purpose of the loan notes 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 year 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 2013

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 mortgage loan portfolio consists of 10 loans secured over 56 properties (2012 13 loans secured over 59 properties) At 31 March 2013, the gross amount outstanding on all mortgage loans was £505,326,996 (2012 £551,706,638) The maximum individual exposure to credit risk is considered to be Lea Valley Limited totalling £219,775,545 (2012 £220,675,596) which equals 43% (2012 40%) of the total portfolio The Lea Valley loan is secured by first priority legal mortgages over the leasehold or freehold title to twenty-eight industrial, office and retail properties located throughout England and Wales

Impairment
The Group assesses at each reporting 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 impairment represents the estimated difference between the market valuation of the collateral and the loan outstanding

Impairments charged during the year against loans were Lea Valley Limited £80,645,248 (2012 £nil), Mapeley Beta Acquisition £80,043,183 (2012 £nil), Rowan UK Commercial £342,548 (2012 impairment reversal of £76,122), MPH (UK) £9,616 (2012 impairment reversal of £93,515), Swiftgold Limited £200,779 (2012 £nil), Upper King Street £114,845 (2012 £nil) and Braeside Limited £142,907 (£nil) During the year, there were no reversals of impairment provisions on mortgage loans

As at 31 March 2013, no impairment was charged against the Fairhold Holdings Limited, Le Meridien Picadilly, Mannheim Wigmore LLC, Elbank Limited, LMK Overseas Investments and Mannheim 17 Albermale St

The Lea Valley Limited loan was placed on the watch list during the year ended 31 March 2012 due to a fall in total net income and a decrease in occupancy rates Due to the continued deterioration in net income and occupancy, an impairment provision of £80,645,248 was booked based on the directors' estimate of the property value which incorporates the impact of the loss of income resulting from the current level of unoccupied area The servicer has appointed Savills since the Statement of Financial Position date to formally value the Lea Valley property and therefore the directors expect to receive a more accurate estimate of the value of the property by the end of 2013

The Mapeley Beta Acquisition loan was placed into special servicing on 25 October 2012 due to a breach of loan-to-value covenant The property was revalued on 1 August 2012 and an impairment of £80,043,183 was booked based on the estimated property value less possible costs associated with termination of the borrower's hedging arrangements

DECO 8 – UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Impairment (continued)

The Rowan UK Commercial loan has been in default since October 2010, the ICR covenant was breached and there was default on payment at maturity on 20 October 2010 Subsequently, the loan was impaired and the cumulative impairment at the start of the year was £5,070 558 The most recent external valuation was dated January 2011 As at 31 March 2013, the estimated market value was deemed to be lower than the carrying value as at that date and hence a further impairment charge of £342,548 was booked against the loan

The MPH (UK) loan was placed into special servicing on March 2011 and the underlying properties were re-valued in April 2011 At the year end, an impairment provision of £9,616 was booked to account for the fall in value of the underlying properties based on estimated market values The special servicer is still evaluating several recovery strategies for the loan

The LMK Overseas Investments loan is due to mature in less than one year The most recent external valuation was dated December 2005 and no impairment has been booked based on the directors' estimated valuation of the underlying property collateral at year-end

The Swiftgold Limited loan was placed into special servicing on 24 October 2012 due to a payment default at maturity on 20 October 2012 The underlying properties of the loan were re-valued on 1 February 2013 Therefore, an impairment provision of £200,779 was charged against the loan to account for the difference in the estimated property value and the carrying value as at the year-end

The Elbank Limited loan defaulted on its maturity date of 20 January 2013 and was subsequently placed into special servicing on 23 January 2013 Although the loan is in special servicing, no impairment has been booked based on the estimated valuation of the underlying property collateral

The Upper King Street loan was repaid during the quarter ended July 2013 following the sale of the underlying properties As at 31 March 2013, the mortgage loan balance was £885,750 (excluding the partial repayment of £43,600 made during the quarter April 2013) Subsequently, the Group made a loss of £114,845 on the redemption of the loan which has been recorded as an impairment as at year end

The Braeside Limited loan was placed into special servicing due to a default on repayment of the loan at the maturity date The special servicer is looking for prospective buyers for the properties and therefore the underlying properties were re-valued at an estimated market value of £1,520,000 on 30 May 2013 An impairment of £142,907 was booked to account for the estimated shortfall in value of the collateral as at 31 March 2013

The Fairhold Holdings Limited loan collateral was re-valued on 19 July 2013 at an estimated market value of £84,850,000 Although the loan has been placed into special servicing on 28 January 2013, no impairment has been recognised since the estimated value of the collateral is above the carrying amount of the outstanding mortgage loan balance as at year end

During the year ended 31 March 2013, the Le Meridien Piccadilly, Mannheim Wigmore LLC and Mannheim 17 Albermale St were repaid in full

Refinancing risk

The ability of a borrower to make timely payments 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

DECO 8–UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

Going concern
The Group has net liabilities as a result of impairments on the loan assets However, the terms of the loan notes are limited recourse and therefore the Group is only obliged to repay the notes to the extent that the Group receives cash from the loan assets The note holders will therefore ultimately bear the Group's deficits on maturity of the notes

Due to the limited recourse nature of the loan notes, 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

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

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 The liquidity facility for £37,870,140 was renewed for the period from 19 March 2013 up to 26 April 2014 The directors expect this facility to be renewed annually

During the year, the liquidity facility was drawn to accommodate the interest shortfall that arose on the defaulted interest payments on mortgage loans during the year The liquidity was initially drawn in June 2012 During the year ended 31 March 2013, the Group had drawn a net amount of £21,615 (2012 repayment of £37,894) and a principal amount of £90,694 (2012 £69,079) was payable as at year end Further discussion of the Group's approach to financial instruments is set out in note 1 (significant accounting policies) and 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

DIRECTORS AND THEIR INTERESTS
The directors who served the Company during the year, together with their beneficial interests in the shares of the Company, were as follows

Wilmington Trust SP Services (London) Limited (resigned on 28 September 2012)
Mr M H Filer (resigned on 28 September 2012)
Mr J Traynor (resigned on 28 September 2012)
Mr Graham Cox (appointed on 28 September 2012)
Mr Graham Hodgkin (appointed on 28 September 2012)

Wilmington Trust SP Services (London) Limited held the sole share in the Company under a declaration of trust for charitable purposes No other director had any beneficial interest in the shares of the Company during the year With effect from 28 September 2012, Wilmington Trust SP Services (London) Limited transferred the sole share of the Company to Castlewood CS Holdings Limited

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

DECO 8–UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The dırectors confirm that

- so far as the dırectors are aware, there ıs no relevant audıt ınformatıon of whıch the Company's audıtor ıs unaware, and
- each of the dırectors have taken all steps that they ought to have as dırector ın order to make themselves aware of any relevant audıt ınformatıon and to establısh that the Company's audıtor ıs aware of that ınformatıon

Thıs confirmatıon ıs gıven and should be ınterpreted ın accordance wıth the provısıons of s418 of the Companıes Act 2006

Sıgned by order of the dırectors

G Hodgkin for and on behalf of Deco 8-UK Conduit 2 Holding Limited

Dırector Graham Hodgkin

10 December 2013

DECO 8–UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2013

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 MEMBER 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 2013 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 member 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 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 2013 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, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
10 December 2013

Company Registration Number 05745753

DECO 8–UK CONDUIT 2 HOLDING LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2013

Continuing operations	**Notes**	2013 £	2012 £
Interest income	2	26,357,888	28,036,044
Interest expense	3	(25,147,490)	(26,860,517)
Net interest income		1,210,398	1,175,527
Fair value movement on derivative financial instruments	14	(532,350)	(27,711,057)
Impairment (charge)/reversal against mortgage loans	7	(161,499,126)	115,262
Other operating expenses	4	(1,207,763)	(1,172,723)
Loss before tax for the year		(162,028,841)	(27,592,991)
Income tax (charge)/credit	5	(527)	617
Loss after tax for the year attributable to equity holders		(162,029,368)	(27,592,374)
Other comprehensive income		-	-
Total comprehensive loss for the year		(162,029,368)	(27,592,374)

The notes on pages 16 to 33 form part of these financial statements

DECO 8 – UK CONDUIT 2 HOLDING LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Notes	2013 £	2012 £
Assets			
Non-current assets			
Mortgage loans	7	239,266,009	411 677 248
Current assets			
Mortgage loans	7	97,509,162	132,976,692
Trade and other receivables	8	4,388,461	4,819,565
Cash and cash equivalents	9	258,338	248,092
		102,155,961	138,044,349
Total assets		341,421,970	549,721,597
Equity			
Share capital	10	1	1
Retained losses	10	(246,654,550)	(84,625,182)
Total deficit		(246,654,549)	(84,625,181)
Non-current liabilities			
Loan notes	11	412,572,395	424,131,067
Total non-current liabilities		412,572,395	424,131,067
Current liabilities			
Loan notes	11	98,052,488	132,976,692
Accrued interest	11	943,375	1,442,268
Trade and other payables	12	3,634,448	3,477,430
Derivative financial instruments	14	72,782,592	72,250,242
Liquidity drawdown	11	90,694	69,079
Current tax liability		527	-
Total current liabilities		175,504,124	210,215,711
Total liabilities		588,076,519	634,346,778
Total equity and liabilities		341,421,970	549,721,597

These financial statements of Deco 8 – UK Conduit 2 Holding Limited, Company Registration 05745753 on pages 9 to 33 were approved by the directors and authorised for issue on 10 December 2013 and are signed on their behalf by

for and on behalf of Deco 8-UK Conduit 2 Holding Limited

Graham Hodgkin

Director

The notes on pages 16 to 33 form part of these financial statements

DECO 8–UK CONDUIT 2 HOLDING LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Notes	2013 £	2012 £
Non-current asset			
Investment in subsidiary	6	12,501	12,501
Current assets			
Cash and cash equivalents	9	1	1
		1	1
Total assets		12,502	12,502
Equity			
Share capital	10	1	1
Retained profit	10	10,126	10,126
Total equity		10,127	10,127
Current liabilities			
Trade and other payables	12	2,375	2,375
Total current liabilities		2,375	2,375
Total liabilities		2,375	2,375
Total equity and liabilities		12,502	12,502

These financial statements of Deco 8 – UK Conduit 2 Holding Limited, Company Registration 05745753 on pages 9 to 33 were approved by the directors and authorised for issue on 10 December 2013 and are signed on their behalf by

G Hodgkin for and on behalf of Deco 8-UK Conduit 2 Holding Limited

Director Graham Hodgkin

The notes on pages 16 to 33 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 2013

	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	1	(84,625,182)	(84,625,181)

	Share capital	**Retained loss**	**Total equity**
	£	**£**	**£**
Balance at 1 April 2012	**1**	**(84,625,182)**	**(84,625,181)**
Loss for the year	**-**	**(162,029,368)**	**(162,029,368)**
Other comprehensive income for the year 31 March 2013	**-**	**-**	**-**
Balance at 31 March 2013	**1**	**(246,654,550)**	**(246,654,549)**

The notes on pages 16 to 33 form part of these financial statements

DECO 8–UK CONDUIT 2 HOLDING LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2013

	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	1	10,126	10,127

	Share capital £	**Retained earnings £**	**Total equity £**
Balance at 1 April 2012	**1**	**10,126**	**10,127**
Loss for the year	**-**	**-**	**-**
Other comprehensive income for the year 31 March 2013	**-**	**-**	**-**
Balance at 31 March 2013	**1**	**10,126**	**10,127**

The notes on pages 16 to 33 form part of these financial statements

DECO 8–UK CONDUIT 2 HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Loss before tax for the year		**(162,028,841)**	(27,592,991)
Adjustments for			
Fair value movement on derivative financial instruments		**532,350**	27,711,057
Impairments to loans		**161,499,126**	(115,262)
Bank interest receivable		**(11,485)**	(710)
Decrease in trade and other receivables		**431,103**	345,190
Decrease in trade and other payables		**(341,874)**	(481,045)
Net cash generated from/(used in) operations		**80,379**	(133,761)
Tax paid		**-**	(165)
Net cash from/(used in) operating activities		**80,379**	(133,926)
Cash flows from investing activities			
Repayments of mortgage loans received during the year	7	**46,379,643**	6,465,667
Bank interest received		**11,485**	710
Net cash from investing activities		**46,391,128**	6,466,377
Cash flows used in financing activities			
Liquidity facility drawdown		**21,615**	(37,894)
Repayments of interest bearing loan notes during the year		**(46,482,876)**	(6,514,708)
Net cash used in financing activities		**(46,461,261)**	(6,552,602)
Net increase/(decrease) in cash and cash equivalents		**10,246**	(220,151)
Cash and cash equivalents at beginning of year		**248,092**	468,243
Cash and cash equivalents at 31 March	9	**258,338**	248,092

Actual cash received and paid as interest income and interest expense during the year was £26,777,506 (2012 £11,408,545) and £6,692,508 (2012 £7,423,712) respectively

(As explained in the accounting policies note on page 18, the cash is not freely available to be used)

The notes on pages 16 to 33 form part of these financial statements

DECO 8–UK CONDUIT 2 HOLDING LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Profit before tax for the year		-	-
Net cash from operating activities		-	-
Net cash used in investing activities		-	-
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		1	1
Cash and cash equivalents at 31 March	9	1	1

The notes on pages 16 to 33 form part of these financial statements

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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 and Wales

Statement of compliance
The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") as they apply to the financial statements of the Group for the year ended 31 March 2013

The accounting policies set out below have been applied in respect of the financial year ended 31 March 2013 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

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 (2012 £nil)

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 to 6 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 net liabilities as a result of impairments on the loan assets However, the terms of the loan notes are limited recourse and therefore the Group is only obliged to repay the notes to the extent that the Group receives cash from the loan assets The note holders will therefore ultimately bear the Group's deficits on maturity of the notes

Due to the limited recourse nature of the loan notes, 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

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

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 Acquisition-related costs are generally recognised in profit or loss as incurred 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, loan notes and various receivables and payables that arise directly from its operations The main purpose of the loan notes is to acquire a beneficial interest in a mortgage portfolio These loan notes are classified in accordance with the principles of IAS 39 Financial Instruments Recognition and Measurement as described below

Mortgage loans
The mortgage loans are classified as loans and receivables and are initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method

Impairment
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 certificates holders dependent on the extent to which the surplus income, in excess of the net margin, generated by the mortgage loans in which the Group has purchased an interest, exceeds the administration costs of the mortgage loans Deferred consideration is recognised on an accruals basis

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents
Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less All withdrawals from the Group's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes

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 Derivatives are accounted for as held for trading under IAS 39 – Financial Instruments Recognition and Measurement

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the Statement of Financial Position 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 Statement of Financial Position 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

Loan notes
Loan notes 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, loan notes 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 and expense is accounted for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset's or liability's net 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 2013

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax expense
Income tax in the Statement of Comprehensive Income for the year comprises current and deferred tax Income tax is recognised as expense or gain except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income Income tax expense is calculated based on the retained cash profits of the Group for the year as explained in note 5

Standards issued but not adopted
The directors are considering the following standards which are currently in issue but are not yet effective and have not been adopted in the current financial year

The adoption of Standards and Interpretations issued by the International Accounting Standards Board (IASB), as adopted by the EU, that were effective for the current year has not had a material impact on the financial statements of the Group 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
IFRS 9 – Financial Instruments	Accounting periods beginning on or after 1 January 2015
IFRS 10 – Consolidated Financial Statements	Accounting periods beginning on or after 1 January 2013
IFRS 11 – Joint Arrangements	Accounting periods beginning on or after 1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	Accounting periods beginning on or after 1 January 2013
IFRS 13 – Fair Value Measurement	Accounting periods beginning on or after 1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012) Investment Entities	Accounting periods beginning on or after 1 January 2014
Annual improvements to IFRSs 2009 – 2011 Cycle	Accounting periods beginning on or after 1 January 2013
Amendments to IAS 32 (Dec 2011) Offsetting Financial Assets and Financial Liabilities	Accounting periods beginning on or after 1 January 2014
Amendments to IFRS 7 (Dec 2011) Disclosures – Offsetting Financial Assets and Financial Liabilities	Accounting periods beginning on or after 1 January 2013

The directors are currently considering the potential impact of the adoption of IFRS 9, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 on the financial statements of the Group, but the Group 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

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

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

2. INTEREST INCOME

	2013 Group £	2012 Group £
Income from mortgage loans	**26,346,403**	28,035,334
Bank interest received	**11,485**	710
	26,357,888	28,036,044

3 INTEREST EXPENSE

	2013 Group £	2012 Group £
Interest on loan notes	**6,193,615**	7,125,802
Net swap interest payable	**17,983,872**	17,792,863
Deferred consideration	**970,003**	1,941,852
	25,147,490	26,860,517

4 OPERATING EXPENSES

	2013 Group £	2012 Group £
Administration and cash management fees	**1,142,976**	1,123,388
Audit fees for the audit of the Company's accounts	**5,076**	25,650
Audit fees for audit of the subsidiary's accounts	**32,125**	2,350
Tax fees paid to the auditor for taxation services provided	**9,319**	8,880
Corporate services fees	**18,267**	12,455
	1,207,763	1,172,723

Directors' emoluments during the year amounted to £1,244 (2012 £nil) for their services as directors to the Group during the year The directors had no material interest in any contract of significance in relation to the business of the Group (2012 none) The Group did not have any employees in the current year (2012 none)

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 (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

5. INCOME TAX EXPENSE (Continued)

	2013 Group	2013 Company	2012 Group	2012 Company
Current tax:	£	£	£	£
Corporation tax charge for the year at a rate of 20% (2012 20%)	(527)	-	-	-
Adjustment to the prior year	-	-	617	-
Total income tax (charge)/credit in Statement of Comprehensive Income	(527)	-	617	-

Reconciliation of total tax charge	2013 Group	2013 Company	2012 Group	2012 Company
	£	£	£	£
Loss before tax multiplied by the standard rate of corporation tax in the UK 20% (2012 20%)	32,405,768	-	5 518,475	-
Adjustment in respect of the prior year	-	-	(617)	-
Tax adjustment on fair value movement	(32,405,295)	-	(5,517,858)	-
Total tax (charge)/credit for the year	(527)	-	617	-

6 INVESTMENT IN SUBSIDIARY

	2013	2012
Company	£	£
At 1 April 2012 and 31 March 2013	12,501	12,501

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 Statement of Financial Position

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

	2013	2012
Group	£	£
At 1 April	544,653,940	551,004,345
Redemptions	(46,379,643)	(6,465,667)
Impairment (charge)/reversal	(161,499,126)	115,262
At 31 March	336,775,171	544,653,940
The balance can be analysed as follows		
Current assets	97,509,162	132,976,692
Non-current assets	239,266,009	411,677,248
	336,775,171	544,653,940

7. MORTGAGE LOANS (Continued)

The movement of the impairment provision can be analysed as follows

	2013	2012
	£	£
At 1 April	(12,502,861)	(12,618,123)
(Provisions)/reversals made during the year	(161,499,126)	1,637,399
Impairments write off	-	(1,522,137)
At 31 March	(174,001,987)	(12,502,861)

The mortgage loans are due for repayment between April 2013 and April 2016 and comprise both floating and fixed rate loans At 31 March 2013, the fixed rate of interest on the mortgage loans ranged from 5 37% to 5 97% (2012 5 37% to 6 47%) The loans are secured over commercial properties in the UK Deutsche Bank AG, London Branch acts as security trustee for the loans

The Group assesses at each reporting 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 impairment represents the estimated difference between the market valuation of the collateral and the loan outstanding

Impairments charged during the year against loans were Lea Valley Limited £80,645,248 (2012 £nil), Mapeley Beta Acquisition £80,043,183 (2012 £nil), Rowan UK Commercial £342,548 (2012 impairment reversal of £76,122), MPH (UK) £9,616 (2012 impairment reversal of £93,515), Swiftgold Limited £200,779 (2012 £nil), Upper King Street £114,845 (2012 £nil) and Braeside Limited £142,907 (£nil) During the year, there were no reversals of impairment provisions on mortgage loans

As at 31 March 2013, no impairment was charged against the Fairhold Holdings Limited, Le Meridien Picadilly, Mannheim Wigmore LLC, Elbank Limited, LMK Overseas Investments and Mannhein 17 Albermale St

The Lea Valley Limited loan was placed on the watch list during the year ended 31 March 2012 due to a fall in total net income and a decrease in occupancy rates Due to the continued deterioration in net income and occupancy, an impairment provision of £80,645,248 was booked based on the directors' estimate of the property value which incorporates the impact of the loss of income resulting from the current level of unoccupied area The servicer has appointed Savills since the Statement of Financial Position date to formally value the Lea Valley property and therefore the directors expect to receive a more accurate estimate of the value of the property by the end of 2013

The Mapeley Beta Acquisition loan was placed into special servicing on 25 October 2012 due to a breach of loan-to-value covenant The property was revalued on 1 August 2012 and an impairment of £80,043,183 was booked based on the estimated property value less possible costs associated with termination of the borrower's hedging arrangements

The Rowan UK Commercial loan has been in default since October 2010, the ICR covenant was breached and there was default on payment at maturity on 20 October 2010 Subsequently, the loan was impaired and the cumulative impairment at the start of the year was £5,070,558 The most recent external valuation was dated January 2011 As at 31 March 2013, the estimated market value was deemed to be lower than the carrying value as at that date and hence a further impairment charge of £342,548 was booked against the loan

7 MORTGAGE LOANS (Continued)

The MPH (UK) loan was placed into special servicing on March 2011 and the underlying properties were re-valued in April 2011 At the year end, an impairment provision of £9,616 was booked to account for the fall in value of the underlying properties based on estimated market values The special servicer is still evaluating several recovery strategies for the loan

The LMK Overseas Investments loan is due to mature in less than one year The most recent external valuation was dated December 2005 and no impairment has been booked based on the directors' estimated valuation of the underlying property collateral at year-end

The Swiftgold Limited loan was placed into special servicing on 24 October 2012 due to a payment default at maturity on 20 October 2012 The underlying properties of the loan were re-valued on 1 February 2013 Therefore, an impairment provision of £200,779 was charged against the loan to account for the difference in the estimated property value and the carrying value as at the year-end

The Elbank Limited loan defaulted on its maturity date of 20 January 2013 and was subsequently placed into special servicing on 23 January 2013 Although the loan is in special servicing, no impairment has been booked based on the estimated valuation of the underlying property collateral

The Upper King Street loan was repaid during the quarter ended July 2013 following the sale of the underlying properties As at 31 March 2013, the mortgage loan balance was £885,750 (excluding the partial repayment of £43,600 made during the quarter April 2013) Subsequently, the Group made a loss of £114,845 on the redemption of the loan which has been recorded as an impairment as at year end

The Braeside Limited loan was placed into special servicing due to a default on repayment of the loan at the maturity date The special servicer is looking for prospective buyers for the properties and therefore the underlying properties were re-valued at an estimated market value of £1,520,000 on 30 May 2013 An impairment of £142,907 was booked to account for the estimated shortfall in value of the collateral as at 31 March 2013

The Fairhold Holdings Limited loan collateral was re-valued on 19 July 2013 at an estimated market value of £84,850,000 Although the loan has been placed into special servicing on 28 January 2013, no impairment has been recognised since the estimated value of the collateral is above the carrying amount of the outstanding mortgage loan balance as at year end

During the year ended 31 March 2013, the Le Meridien Piccadilly, Mannheim Wigmore LLC and Mannheim 17 Albermale St were repaid in full

8 TRADE AND OTHER RECEIVABLES

	Group	**Company**	Group	Company
	2013	**2013**	2012	2012
	£	**£**	£	£
Other debtors	**31,331**	-	31,332	-
Interest receivable on mortgage loans	**4,357,130**	-	4,788,233	-
	4,388,461	-	4,819,565	-

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 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
Cash and cash equivalents	258,338	1	248,092	1

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

10 TOTAL EQUITY

Group	Issued share capital £	Retained losses £	Total equity £
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)
Loss after tax for the year	-	(162,029,368)	(162,029,368)
Balance at 31 March 2013	1	(246,654,550)	(246,654,549)

Company	Issued share capital £	Retained profit £	Total equity £
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
Profit after tax for the year	-	-	-
Balance at 31 March 2013	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 previously held one fully paid £1 share under a declaration of trust for charitable purposes This one share was transferred to Castlewood CS Holdings Limited on 28 September 2012

11. LOAN NOTES

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

	Group 2013 £	Group 2012 £
Non-current liabilities		
Loan notes	412,572,395	424,131,067
	412,572,395	424,131,067
Current liabilities		
Loan notes	98,052,488	132,976,692
Interest payable on loan notes	943,375	1,442,268
Liquidity drawdown	90,694	69,079
	99,086,557	134,488,039

11 LOAN NOTES (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

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 Group The facility is in place to allow the Group to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loans on a temporary basis The liquidity facility for £37,870,140 was renewed for the period from 19 March 2013 up to 26 April 2014 The directors expect this facility to be renewed annually

During the year, the liquidity facility was drawn to accommodate the interest shortfall that arose on the defaulted interest payments on mortgage loans during the year The liquidity was initially drawn in June 2012 During the year ended 31 March 2013, the Group had drawn a net amount of £21,615 (2012 repayment of £37,894) and a principal amount of £90,694 (2012 £69,079) was payable as at year end

The loan notes are denominated in the following currency

	2013	2012
	£	£
Sterling	510,624,883	557,107,759

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 Statement of Financial Position date £81,972,749 (2012 £128,352,306) in respect of the Class A1 notes was outstanding, £255,808,228 (2012 £255,808,228) in respect of Class A2 notes, £32,300,026 (2012 £32,300,026) in respect of Class B notes, £33,895,089 (2012 £33,895,089) in respect of Class C notes, £23,427,488 (2012 £23 427,488) in respect of the Class D notes, £60,911,468 (2012 £60,911,468) in respect of Class E notes, £14 156,184 (2012 £14,156,184) in respect of F notes and £8,153,651 (2012 £8,256,970) in respect of Class G notes The notes are secured by way of a fixed and floating charge over the assets of the Group The proceeds of the notes were used by the Group to acquire the mortgage loan from Deutsche Bank AG in accordance with the terms of the securitisation documents

12 TRADE AND OTHER PAYABLES

	Group 2013	Company 2013	Group 2012	Company 2012
Current liabilities	£	£	£	£
Other payable	-	2,375	-	2,375
Accruals and deferred income	3,634,448	-	3,477,430	-
	3,634,448	2,375	3,477,430	2,375

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

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

13 PRINCIPAL RISK AND UNCERTAINTIES

Financial risk management

The Group's financial instruments, other than derivatives, comprise mortgage loans, cash and liquid resources, loan notes 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 year 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 6

Interest rate risk

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 loan notes

Interest rate sensitivity

The sensitivity of the Group 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

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 mortgage loan portfolio consists of 10 loans secured over 56 properties (2012 13 loans secured over 59 properties) At 31 March 2013, the gross amount outstanding on all mortgage loans was £505,326,996 (2012 £551,706,638) The maximum individual exposure to credit risk is considered to be Lea Valley Limited totalling £219,775,545 (2012 £220,675,596) which equals 43% (2012 40%) of the total portfolio before impairment The Lea Valley loan is secured by first priority legal mortgages over the leasehold or freehold title to twenty-eight industrial, office and retail properties located throughout England and Wales The loans are spread over several geographical locations in the United Kingdom and business sectors

The carrying amount of financial assets represents the maximum credit exposure The maximum exposure to credit risk at the reporting date was as follows

Group **Financial assets**	**Notes**	**Carrying amount 2013 £**	**Maximum exposure 2013 £**	Carrying amount 2012 £	Maximum exposure 2012 £
Mortgage loans	7	336,775,171	336,775,171	544,653,940	544,653,940
Trade and other receivables	8	4,388,461	4,388,461	4,819,565	4,819,565
Cash and cash equivalents	9	258,338	258,338	248,092	248,092
Total assets		341,421,970	341,421,970	549,721,597	549,721,597

13 PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Company **Financial assets**	**Notes**	**Carrying amount 2013**	**Maximum exposure 2013**	Carrying amount 2012	Maximum exposure 2012
		£	**£**	£	£
Cash and cash equivalents	9	1	1	1	1
Total assets		1	1	1	1

The underlying mortgage loans being secured by first charge over the commercial property located in England Wales and Scotland

The table below sets out the carrying amount, the collective impairments and approximate fair value of collateral held against exposures to customers The estimate of fair value is based on the most recent valuation performed and are indexed using the UK IPD property index, except for impaired loans where the directors' estimate of the collateral value was lower than the indexed valuation

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

Group	**Carrying amount 2013**	**Impairment 2013**	**Fair value of collateral 2013**	Carrying amount 2012	Impairment 2012	Fair value of collateral 2012
	£	**£**	**£**	£	£	£
Neither past due nor impaired	**3,537,500**	**-**	**3,755,955**	531,016,529	-	356,718,643
Past due but not impaired	**70,406,312**	**-**	**89,680,319**	1,656,992	-	1,855,257
Impaired	**431,383,184**	**(168,551,825)**	**263,588,685**	19,033,117	(7,052,698)	11,980,419
	505,326,996	**(168,551,825)**	**357,024,959**	551,706,638	(7,052,698)	370,554,319

The allowance for impairment disclosed above excludes impairment relating to written-off mortgage loans, therefore differs from the cumulative impairments disclosed in note 7 of these financial statements

The interest income accrued on the impaired financial assets at year end is £3,645,571 (2012 £126,104)

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 a better credit rating

Liquidity risk
Interest receipts on the mortgage loans may, under certain circumstances, be delayed Such delays could adversely offer the ability of the Group to make timely payments of interest on the loan notes In order to protect itself against this risk, the Group has entered into a liquidity facility agreement with Danske Bank A/S (London Branch) on 4 May 2006 As well as covering delays in the payment of interest on the mortgage loans, the liquidity facility agreement will also permit the Group to make drawings to pay certain expenses from time to time of the Group The liquidity facility for £37,870,140 was renewed for the period from 19 March 2013 up to 26 April 2014 The directors expect this facility to be renewed annually

Further information on the liquidity facility is disclosed in note 11

Moreover, the maturity of the loan notes is designed to match the maturity of the mortgage loans and hence, there are deemed to be limited liquidity risks facing the Group

The redemption of the notes is dependent on the receipt of payments on the mortgage loans In accordance with the Prospectus for the loan notes, Class A1 Notes will be redeemed in priority to redemption of the remaining classes of notes followed by Class A2, B, C, D, E , F and Class G Interest payable on loan notes was estimated based on the rates as at 31 March 2013

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

13 PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Liquidity risk (Continued)
The table below reflects the undiscounted contractual cash flows of non derivative financial liabilities at the reporting date

As at 31 March 2013	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
	£	£	£	£	£	£
Loan notes	510,624,883	510,624,884	1,559,497	96,492,991	412,572,396	-
Interest payable on loan notes	943,375	13,128,694	1,034,298	3,933,302	8,161,094	-
Liquidity draw down	90,694	90,694	90,694	-	-	-
Total non-derivative financial instruments	**511,658,952**	**523,844,272**	**2,684,489**	**100,426,293**	**420,733,490**	**-**

As at 31 March 2012	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Loan notes	557,107,759	551,706,654	18,031,273	114,945,419	418,729,962	-
Interest payable on loan notes	1,442,268	37,495,220	1,874,761	5,624,283	29,996,176	-
Liquidity draw down	69,079	69,079	69,079	-	-	-
Total non-derivative financial instruments	558,619,106	589,270,953	19,975,113	120,569,702	448,726,138	-

The above undiscounted contractual cash flows have been based on the assumptions that the repayment of the loan notes follows the same trend as the principal repayments on mortgage loans The mortgage loans that are past due their legal maturity date have been assumed to be repayable in full within the next payment date

The table below reflects the undiscounted contractual cash flows of derivative financial instruments at the Statement of Financial Position date

Group As at 31 March 2013	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
	£	£	£	£	£
	72,782,592	**114,989,807**	**4,700,242**	**14,074,855**	**96,214,710**

As at 31 March 2012	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
	£	£	£	£	£
	72,250 242	77,494,857	983,572	13,315,037	43,196,249

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

13 PRINCIPAL RISK AND UNCERTAINTIES (Continued)

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 loan notes disclosed in note 11 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of financial position

The Group is not subject to any external capital requirements The Group has not breached the minimum requirement The gearing ratios at 31 March 2013 and 2012 were 172 2% and 115 4% respectively

Fair values

The fair values together with the carrying amounts shown in the Statement of Financial Position are as follows

Group	Notes	Carrying amount 2013 £	Fair value 2013 £	Carrying amount 2012 £	Fair value 2012 £
Mortgage loans	7	336,775,171	356,693,547	544,653,940	389,006,814
Trade and other receivables	8	4,388,461	4,388,461	4,819,365	4,819,365
Cash and cash equivalents	9	258,338	258,338	248,092	248,092
		341,421,970	361,340,346	549,721,597	394,074,271

Group	Notes	Carrying amount 2013 £	Fair value 2013 £	Carrying amount 2012 £	Fair value 2012 £
Loan notes	11	510,624,883	283,910,955	557,107,759	316,756,573
Interest payable	11	943,375	943,375	1,442,268	1,442,268
Liquidity draw down		90,694	90,694	69,079	69,079
Trade and other payables	12	3,634,448	3,634,448	3,477,430	3,477,430
Derivative financial instruments	14	72,782,592	72,782,592	72,250,242	72,250,242
Current tax liability	5	527	527	-	-
		588,076,519	361,362,591	634,346,778	393,995,592

Company	Notes	Carrying amount 2013 £	Fair value 2013 £	Carrying amount 2012 £	Fair value 2012 £
Cash and cash equivalents	9	1	1	1	1
		1	1	1	1
Intercompany balance		2,375	2,375	2,375	2,375
		2,375	2,375	2,375	2,375

The fair value of mortgage loans is based on the fair value of the loan notes and derivatives that, wherever possible have been estimated using quoted market prices for instruments held Where market prices are not available, fair values have been estimated using quoted values for instruments with either identical or similar characteristics In certain cases, where no ready markets currently exist, various techniques (such as discounted cash flows or observations of similar recent market transactions) have been used to estimate what the approximate fair value of such instruments might be These estimation techniques are necessarily subjective in nature and involve several assumptions

13 PRINCIPAL RISK AND UNCERTAINTIES (Continued)

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 Group are explained in the accounting policies note

The only financial instruments held at fair value on the Statement of Comprehensive Income 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 There have been no transfers between the levels in the current year

Group

As at 31 March 2013

Financial liabilities through profit or loss account	**Total £**	**Level 1 £**	**Level 2 £**	**Level 3 £**
Derivative financial instruments	72,782,592	-	72,782,592	-

As at 31 March 2012

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	72,250,242	-	72,250,242	-

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Effective interest rates and repricing analysis

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

Group 31 March 2013	Effective interest rate (%)	Floating rate £	Non-interest bearing £	Fixed rate	Total £
Assets					
Mortgage loans	5.11	83,159,877	-	253,615,294	336,775,171
Trade and other receivables		-	4,388,461	-	4,388,461
Cash and cash equivalents		258,338	-	-	258,338
		83,418,215	4,388,461	253,615,294	341,421,970
Liabilities					
Loan notes	0.97	510,624,883	-	-	510,624,883
Interest payable		943,375	-	-	943,375
Trade and other payables		-	3,634,448	-	3,634,448
Derivative financial instruments		72,782,592	-	-	72,782,592
Liquidity drawdown		90,694	-	-	90,694
Current tax liability		-	527	-	527
		584,441,544	3,634,975	-	588,076,519

Group 31 March 2012	Effective interest rate (%)	Floating rate £	Non-interest bearing £	Fixed rate	Total £
Assets					
Mortgage loans	5 05	-	-	544,653,940	544,653,940
Trade and other receivables		-	4,819,565	-	4,819,565
Cash and cash equivalents		248,092	-	-	248,092
		248,092	4,819,565	544,653,940	549,721,597
Liabilities					
Loan notes	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		-	-	-	-
		629,427,080	4,919,698	-	634,346,778

Company 31 March 2013	1 to 3 months £	Non-interest bearing £	Total £
Assets			
Investments	-	12,501	12,501
Cash and cash equivalents	1	-	1
	1	12,501	12,502
Liabilities			
Other payable	-	2,375	2,375
	-	2,375	2,375

DECO 8–UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

13 PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Effective interest rates and repricing analysis (Continued)

	1 to 3 months	Non-interest bearing	Total
Company			
31 March 2012			
Assets	£	£	£
Investments	-	12,501	12,501
Cash and cash equivalents	1	-	1
	1	12,501	12,502
Liabilities			
Other payable	-	2,375	2,375
	-	2,375	2,375

14 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Group 2013	Company 2013	Group 2012	Company 2012
	£	£	£	£
Interest rate swaps fair value at start of year	(72,250,242)	-	(44,539,185)	-
Change in fair value	(532,350)	-	(27,711,057)	-
Interest rate swaps fair value at end of year	(72,782,592)	-	(72,250,242)	-

The Group pays a fixed rate ranging from 4 145% to 4 978% (2012 4 145% to 4 978%) and receives 3-month LIBOR

In accordance with IAS 39 'Financial instruments Recognition and measurement', the Group 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 Group 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 Group 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 Group 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

15 RELATED PARTY TRANSACTIONS

The Group is controlled by its Board of directors On 28 September 2012, Wilmington Trust SP Services (London) Limited, Mr M H Filer and Mr J Traynor resigned as directors of the Company On the same date, Mr Graham Cox and Mr Graham Hodgkin were appointed directors of the Company Directors' emoluments during the year amounted to £1,244 (2012 £nil) The Group paid corporate servicer fees to Wilmington Trust SP Services (London) Limited in connection with corporate services received up to 28 September 2012 The fees payable to them for their services for the year ended 31 March 2013 amounted to £15,257 (2012 £12,455) including irrecoverable VAT with £nil (2012 £1,673) still unpaid at year end

On 28 September 2012, Deutsche Bank AG, London Branch was appointed as Corporate Services Provider and the fees payable for part of the year ended 31 March 2013 were £8,288 (2012 £nil) with £8,288 (2012 £nil) unpaid at year end

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 previously held one share in Deco 8-UK Conduit 2 Holding Limited under a declaration of trust for charitable purposes On 28 September 2012, the one share held by Wilmington Trust SP Services (London) Limited was transferred to Castlewood CS Holdings Limited

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

17. SUBSEQUENT EVENTS

On 30 May 2013, the underlying properties of the Braeside Limited loan were re-valued at an estimated market value of £1,520,000 An impairment allowance of £142,907 was booked to account for the estimated shortfall of the collateral valuation compared to the carrying balance of the loan at year-end

During the quarter ended July 2013, the Upper King Street loan was repaid following the sale of the property As at 31 March 2013 the mortgage loan balance was £885,750 (excluding the partial repayment of £43,600 made during the quarter April 2013) Subsequently, the Group made a loss of £114,845 on the sale of the property which was recognised as an impairment as at year-end

On 19 July 2013, the underlying properties of the Fairhold Holdings Limited loan were re-valued The market value of the underlying properties has been estimated at £84,850,000, which is greater than the principal amount outstanding on the loan