

Company Registration Number 06105060

DECO 12-UK 4 HOLDING LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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DECO 12~UK 4 HOLDING LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2012

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DECO 12--UK 4 HOLDING LIMITED

COMPANY INFORMATION

The board of directors

Mr Graham Cox (appointed on 31 August 2012)
Mr Graham Hodgkin (appointed on 31 August 2012)
Wilmington Trust SP Services (London) Limited (resigned on 31 August 2012)
Mr M H Filer (resigned on 31 August 2012)
Mr J Traynor (resigned on 31 August 2012)

Company secretary

Wilmington Trust SP Services (London) Limited (resigned on 31 August 2012)
Deutsche Bank AG, London Branch (appointed on 31 August 2012)

Registered office

Previously up to 31 August 2012
c/o Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF
United Kingdom

From 31 August 2012 onwards
c/o Deutsche Bank AG, London Branch
Winchester House
Mailstop 428
1 Great Winchester Street
London
EC2N 2 DB
United Kingdom

Auditor

Deloitte LLP
London
United Kingdom

DECO 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their report and the financial statements of Deco 12 – UK 4 Holding Limited (the “Company”) and the Group, which comprise the results of the Company and its subsidiary, Deco 12 – UK 4 Plc, for the year ended 31 December 2012

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company’s principal activity is to hold an investment in Deco 12 – UK 4 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 noteholders all the notes then outstanding at a price of one penny per note when notice is received from the Issuer Security Trustee

Deco 12 – UK 4 Plc is a special purpose company established in order to issue floating rate loan notes due January 2020 (“the Notes”), to acquire the beneficial interest in a mortgage portfolio from Deutsche Bank AG, London Branch, (“the mortgage loan”), to open accounts, to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 9 March 2007. On 13 March 2007, the Group issued £672,883,707 loan notes in accordance with the Offering Circular

BUSINESS REVIEW

The key performance indicator of the business is considered to be the net interest margin. During the year, the Group achieved a net interest margin (net interest income divided by interest income) of 5.78% (2011: 3.43%). At the year end, the Group had net liabilities of £74,891,528 (2011: £78,287,455) primarily as a result of the fair value liability on the derivative financial instruments totalling £63,948,024 (2011: £66,897,417) and cumulative impairments on the mortgage loans of £11,037,452 (2011: £11,482,252).

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 Group’s profit for the year after tax amounted to £3,395,927 (2011: loss of £25,236,820) after the gain on the financial derivative instrument of £2,949,393 (2011: loss of £14,556,774) and the reversal of impairment to loans of £444,800 (2011: provision of impairment of £10,687,002). The directors have not recommended a dividend (2011: £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 AND RISK MANAGEMENT POLICIES

The Group’s financial instruments, other than derivatives, comprise 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 finance a mortgage portfolio acquired 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.

The Board reviews and agrees policies for managing 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 Pound Sterling and therefore there is no foreign currency risk.

DECO 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

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

The principal credit risk to the Group is that the borrowers 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 a mortgage loan to Tesco totalling £347,400,000 (2011: Tesco £347,400,000). At 31 December 2012, the total amount outstanding on the mortgage loans was £391,991,565 (2011: £402,078,580). The mortgage loan portfolio consists of six loans secured over 33 properties (2011: 8 loans secured over 35 properties).

All 16 of the Tesco loan underlying properties are let to one tenant, Tesco Stores Limited and the obligations of the latter under related leases are guaranteed by Tesco Plc which is rated A-, Baa1, A by Fitch, Moody's and S&P respectively.

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: Borehamwood Investments Limited £187,644 (2011: £5,215,000), LMM Overseas Investments Limited £688,777 (2011: £4,817,775) and Group 7 (Suffolk) Limited £128,257 (2011: £nil).

During the year, reversals of impairment provisions on mortgage loans were as follows: Chesterton Commercial £227,944 (2011: impairment charge of £227,944), Quattro Syndicate £399,234 (2011: reversal of £396,016) and Industrial Realisation £822,300 (2011: impairment charge of £822,300).

As at 31 December 2012, no impairment was charged against the Tesco and 2006/2007 Regent Capital Spectrum IV & V loans.

The Borehamwood loan has been in default since October 2011, the interest payment date covenant test was breached and the mortgage loan was placed into special servicing. Subsequently, an impairment provision of £5,215,000 was booked on the loan to reflect the default based on the estimated value of the underlying property collateral. The Special Servicer had the property collateral valued on 24 April 2012 to determine the recovery income in case the property was to be sold. Negotiations are ongoing regarding the renewal of the leases with existing tenants and the Special Servicer has recommended the installation of a new private car operator in order to generate additional income.

DECO 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

Impairment (continued)

The LLM Overseas Investments Limited loan was placed into special servicing on 14 June 2012 due to a breach of the loan-to-value test during the year. The property was therefore valued on 17 June 2012 and an impairment of £688,777 was booked based on the estimated property value. The interest for the final quarter for the year ended 31 December 2012 was partially paid from the funds held on a deposit account of the borrower. On 15 April 2013, the LLM Overseas Investments Limited Loan was repaid following the sale of the property, The Cliff Park, Bruntcliffe Road, Morley, Leeds at an amount of £3,006,650.

The Group 7 (Suffolk) Limited loan was placed into special servicing during the year due to a payment default at maturity on 20 January 2012. In January 2013, the loan was subsequently repaid by a completion of the sale of the property which resulted in a principal repayment of £976,143 after payment of sales-related and lender-level expenses. All default interest was paid in full following the sale of the property. An impairment provision of £128,257 was booked to take into consideration that the sale value of the underlying property of the loan has been designated as the estimated market value of the property at 31 December 2012.

The Chesterton Commercial loan was placed into special servicing due to a payment default at maturity on 24 April 2012. The Special Servicer has appointed receivers to gain control of the cash flow and the properties. The Special Servicer is preparing a sale strategy to recover the outstanding debt on loan. Although the loan is currently in default, there was a reversal of impairment charge on the loan by £227,944 to take account of changes in the estimated market value of the underlying properties.

The Quattro Syndicate loan was repaid in the quarter ended 22 October 2012 resulting in an impairment reversal of £399,234.

Similarly, the Industrial Realisation loan was repaid in quarter ended 22 October 2012 resulting in an impairment reversal of £822,300.

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 could be enforced and sold, may be sold at a value below the then outstanding principal of the loan. As a result, repayment of the loan may be made at below par and the Company would be unable to repay certain classes of the loan notes in full.

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 14 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.

DECO 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 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 Group being unable, on a temporary basis, to meet its financial commitments. The liquidity facility for £41,000,000 was renewed on 4 February 2013 for the period from 6 March 2013 up to 5 March 2014. The directors expect this facility to be renewed annually.

At 31 December 2012, an amount of £33,327,021 (2011: £nil) of liquidity facility was drawn 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 drawn was subsequently repaid in January 2013 in accordance with the terms of the Liquidity Facility Agreement, which stipulates that the drawn amount should be repaid on the next distribution date. Further discussion of the Company's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 14.

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 31 August 2012)

Mr M H Filer (resigned on 31 August 2012)

Mr J Traynor (resigned on 31 August 2012)

Mr Graham Cox (appointed on 31 August 2012)

Mr Graham Hodgkin (appointed on 31 August 2012)

	Ordinary shares At 31 December 2012	Ordinary shares At 31 December 2011
Wilmington Trust SP Services (London) Limited	1	1
Transfer	<u>(1)</u>	<u>-</u>
	<u>-</u>	<u>1</u>
Castlewood CS Holdings Limited	<u>1</u>	<u>-</u>

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 31 August 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 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

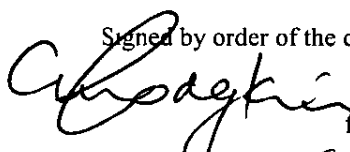
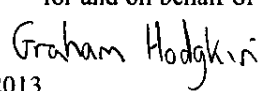

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

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

 for and on behalf of
Director 
 September 2013

DECO 12-UK 4 HOLDING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 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 year. 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 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 12-UK 4 HOLDING LIMITED

We have audited the Group's and Company's financial statements (the "financial statements") of Deco 12-UK 4 Holding Limited for the year ended 31 December 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 18. 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 regards the parent company financial statements, 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 Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended,
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Company's 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 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:

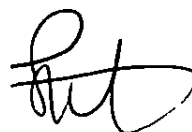
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' 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 Auditor London, United Kingdom

24 September 2013



DECO 12-UK 4 HOLDING LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2012**

		2012	2011
Continuing operations	Notes	£	£
Interest income	2	21,723,582	24,928,471
Interest expense	3	<u>(20,467,716)</u>	<u>(24,073,388)</u>
Net interest income		1,255,866	855,083
Fair value movement on derivative financial instruments		2,949,393	(14,556,774)
Reversal/(provision of impairment) against mortgage loans	8	444,800	(10,687,002)
Operating expenses	4	<u>(1,253,698)</u>	<u>(846,702)</u>
Profit/(loss) before tax for the year		3,396,361	(25,235,395)
Income tax charge	5	<u>(434)</u>	<u>(1,425)</u>
Total profit/(loss) after tax and comprehensive profit/(loss) for the year attributable to equity holders	11	<u>3,395,927</u>	<u>(25,236,820)</u>

The notes on pages 15 to 33 form part of these financial statements


DECO 12-UK 4 HOLDING LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Mortgage loans	8	<u>365,787,049</u>	<u>373,842,708</u>
Current assets			
Mortgage loans	8	15,167,065	16,753,620
Trade and other receivables	9	3,627,558	3,894,486
Cash and cash equivalents	10	<u>33,662,515</u>	<u>180,881</u>
		<u>52,457,138</u>	<u>20,828,987</u>
Total assets		<u>418,244,187</u>	<u>394,671,695</u>
Equity			
Share capital	11	1	1
Retained loss	11	<u>(74,891,529)</u>	<u>(78,287,456)</u>
Total shareholders' deficit		<u>(74,891,528)</u>	<u>(78,287,455)</u>
Non-current liabilities			
Loan notes	12	<u>377,207,252</u>	<u>385,324,960</u>
Total non-current liabilities		<u>377,207,252</u>	<u>385,324,960</u>
Current liabilities			
Loan notes	12	15,167,065	16,753,620
Accrued interest	12	562,595	872,748
Trade and other payables	13	36,249,272	3,109,332
Current tax liability		1,507	1,073
Derivative financial instruments	15	<u>63,948,024</u>	<u>66,897,417</u>
Total current liabilities		<u>115,928,463</u>	<u>87,634,190</u>
Total liabilities		<u>493,135,715</u>	<u>472,959,150</u>
Total equity and liabilities		<u>418,244,187</u>	<u>394,671,695</u>

These financial statements of Deco 12 – UK 4 Holding Limited, Company registration 06105060, on pages 15 to 33 were approved and authorised for issue by the directors on 24 September 2013 and are signed on their behalf by



 for and on behalf of
 Director *Graham Hodgkin*

The notes on pages 15 to 33 form part of these financial statements

DECO 12-UK 4 HOLDING LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 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	10	<u>1</u> <u>1</u>	<u>1</u> <u>1</u>
Total assets		<u>12,502</u>	<u>12,502</u>
Equity			
Share capital	11	1	1
Retained profit	11	<u>9,960</u>	<u>9,960</u>
Total equity		<u>9,961</u>	<u>9,961</u>
Current liabilities			
Other creditors	13	2,541	2,541
Current tax liability		<u>-</u>	<u>-</u>
Total current liabilities		<u>2,541</u>	<u>2,541</u>
Total liabilities		<u>2,541</u>	<u>2,541</u>
Total equity and liabilities		<u>12,502</u>	<u>12,502</u>

These financial statements Deco 12 – UK 4 Holding Limited, Company registration 06105060, on pages 15 to 33 were approved by the directors and authorised for issue on 24 September 2013 and are signed on their behalf by


for and on behalf of
Director Graham Hodgkin

The notes on pages 15 to 33 form part of these financial statements

DECO 12-UK 4 HOLDING LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2012**

	Share capital £	Retained losses £	Total £
Balance at 1 January 2011	1	(53,050,636)	(53,050,634)
Loss for the year	-	(25,236,820)	(25,236,820)
Other comprehensive loss for the year	-	-	-
Balance at 31 December 2011	<u>1</u>	<u>(78,287,456)</u>	<u>(78,287,454)</u>
Balance at 1 January 2012	1	(78,287,456)	(78,287,454)
Profit for the year	-	3,395,927	3,395,927
Other comprehensive profit for the year	-	-	-
Balance at 31 December 2012	<u>1</u>	<u>(74,891,529)</u>	<u>(74,891,528)</u>

COMPANY STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Share Capital £	Retained earnings £	Total £
Balance at 1 January 2011	1	9,960	-
Loss for the year	-	-	-
Other comprehensive income for the year	-	-	-
Balance at 31 December 2011	<u>1</u>	<u>9,960</u>	<u>9,961</u>
Balance at 1 January 2012	1	9,960	9,961
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 31 December 2012	<u>1</u>	<u>9,960</u>	<u>9,961</u>

The notes on pages 15 to 33 form part of these financial statements

DECO 12-UK 4 HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Operating activities			
Profit/(loss) before tax for the year		3,396,361	(25,235,395)
<i>Adjustments for</i>			
Fair value movement on derivative financial instrument		(2,949,393)	14,556,774
Impairment on mortgage loans		(444,800)	10,687,002
Bank interest receivable	2	(46,312)	(5,889)
Net accrued interest income		382,751	-
Decrease in trade and other receivables	9	266,928	922,520
Increase/(decrease) in trade and other payables	12, 13	<u>32,829,787</u>	<u>(824,708)</u>
Net cash from operating activities		33,435,322	100,304
 Tax paid		 <u>-</u>	 <u>(1,250)</u>
		33,435,322	99,054
 Investing activities			
Repayments of mortgage loans		9,704,263	223,290,704
Bank interest received		<u>46,312</u>	<u>5,889</u>
Net cash from investing activities		<u>9,750,575</u>	<u>223,296,593</u>
 Financing activities			
Repayments of loan notes		<u>(9,704,263)</u>	<u>(224,130,536)</u>
Net cash used in financing activities		<u>(9,704,263)</u>	<u>(224,130,536)</u>
Net increase/(decrease) in cash and cash equivalents		<u>33,481,634</u>	<u>(734,889)</u>
 Cash and cash equivalents at beginning of year		 <u>180,881</u>	 <u>915,770</u>
Cash and cash equivalents at 31 December	10	<u>33,662,515</u>	<u>180,881</u>

Actual cash received and paid as interest income and interest expense during the year (excluding Class X interest) was £21,944,198 (2011 £25,845,555) and £4,783,594 (2011 £5,756,505) respectively

As explained in the accounting policies note on page 17, the cash is not freely available to be used

The notes on pages 15 to 33 form part of these financial statements

DECO 12–UK 4 HOLDING LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Profit before tax for the year		-	-
<i>Adjustments for</i>			
Increase in creditors		-	-
Net cash from operating activities		-	-
Taxation paid		-	-
Net cash used in investing activities		-	-
Cash flows from financing activities			
Proceeds on issue of shares	10	-	-
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 December	10	1	1

(As explained in the accounting policies note on page 17, the cash is not freely available to be used)

The notes on pages 15 to 33 form part of these financial statements

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Deco 12-UK 4 Holding Limited is a Company incorporated in the United Kingdom 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 ("IFRSs") as they apply to the financial statements of the Group and the Company for the year ended 31 December 2012

The accounting policies set out below have been applied in respect of the year ended 31 December 2012 and prior years

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 (2011 £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 Director's report on pages 2 to 6. In addition, note 14 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 Company 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.

DECO 12–UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

- 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

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 (note 15) and the recoverability of assets (note 8), 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 the interest-bearing borrowings is to acquire a beneficial interest in a mortgage portfolio. These financial instruments 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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred consideration

A deferred consideration charge/(release) 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 agreed margin, generated by the mortgage loans in which the Group has purchased an interest, exceeds the administration costs of the mortgage loans.

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

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. 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 other financial liabilities and recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, Loan notes 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 12–UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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 0.01 percent of the interest received from mortgage loans during the year, that is, the interest income recognised in the Statement of Comprehensive Income for the year.

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 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
IFRS 9 – Financial Instruments	Accounting periods beginning on or after 1 January 2015
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 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.

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. 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 12–UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. INTEREST INCOME

	2012 Group £	2011 Group £
Income from mortgage loans	21,677,270	24,922,582
Bank interest received	<u>46,312</u>	<u>5,889</u>
	<u>21,723,582</u>	<u>24,928,471</u>

3 INTEREST EXPENSE

	2012 Group £	2011 Group £
Net swap interest payable	15,659,102	17,372,471
Interest on loan notes	4,473,441	5,572,772
Deferred consideration	<u>335,173</u>	<u>1,128,145</u>
	<u>20,467,716</u>	<u>24,073,388</u>

4. OPERATING EXPENSES

	2012 Group £	2011 Group £
Administration and cash management fees	1,047,222	800,190
Audit fees for audit of the Company's financial statements	2,400	2,400
Audit fees for audit of the subsidiary's financial statements	21,193	25,440
Fee paid to auditor for tax services	9,722	8,261
Corporate services fees	<u>173,161</u>	<u>10,411</u>
	<u>1,253,698</u>	<u>846,702</u>

Directors' emoluments during the year amounted to £622 (2011 £nil) for their services as directors to the Company during the year. The directors had no material interest in any contract of significance in relation to the business of the Company (2011 none). The Company did not have any employees in the current year (2011 none).

5 INCOME TAX CHARGE

The subsidiary has elected to be taxed under the Taxation of Securitisation Companies 2006 (Regulations) i.e. the permanent regime. 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 this company 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.

	2012 Group £
Current tax:	
Corporation tax charge for the year at a rate of 20%	434
Over provision of the prior year charge	-
Total income tax charge in Statement of Comprehensive Income	<u>434</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

5. INCOME TAX CHARGE (CONTINUED)

	2012 Group £
Reconciliation of total tax charge	
The tax assessed for the year is at the standard rate of corporation tax in the UK of 20% (2011 20%)	
Profit before tax	<u>3,396,361</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20%	(679,272)
Permanent differences relating to application of Taxation of Securitisation Companies Regulations 2006	679,706
Over provision of the prior year charge	-
Total tax credit reported in the Statement of Comprehensive Income	<u>434</u>
	2011 Group £
Current tax	
Corporation tax charge for the year at a rate of 20 25%	1,697
Overprovision of the prior year charge	<u>(272)</u>
	<u>1,425</u>
	2011 Group £
Reconciliation of total tax charge	
The tax assessed for the year is at the standard rate of corporation tax in the UK of 20 25%	
Loss before tax	<u>(25,235,395)</u>
Loss before tax multiplied by the standard rate of corporation tax in the UK of 20 25%	(5,110,168)
Permanent differences relating to application of Taxation of Securitisation Companies Regulations 2006	5,111,865
Under provision of the prior period charge	<u>(272)</u>
Total tax credit reported in the Statement of Comprehensive Income	<u>1,425</u>

6. INVESTMENT IN SUBSIDIARY

	2012 £	2011 £
Company		
At 31 December	<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 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 12 – UK 4 Plc	Great Britain	Ordinary	99.98

Principal activity

The company 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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

7. RESULTS FOR THE FINANCIAL YEAR

As permitted by section 408 of the Companies Act 2006, the parent Company's Statement of Comprehensive Income has not been included in these financial statements. The parent Company's profit for the year was £nil (2011: £nil).

8. MORTGAGE LOANS

Group

	2012 £	2011 £
At 1 January	390,596,328	624,574,034
Movement in the impairment provision during the year	444,800	(10,687,002)
Redemptions	<u>(10,087,014)</u>	<u>(223,290,704)</u>
At 31 December	<u>380,954,114</u>	<u>390,596,328</u>

The balance can be analysed as follows

Current assets	15,167,065	16,753,620
Non-current assets	<u>365,787,049</u>	<u>373,842,708</u>
	<u>380,954,114</u>	<u>390,596,328</u>

The movement of the impairment provision can be analysed as follows

At 1 January	(11,482,252)	(795,250)
Provisions made during the year	(1,004,678)	(11,083,018)
Reversal during the year	<u>1,449,478</u>	<u>96,016</u>
At 31 December	<u>(11,037,452)</u>	<u>(11,482,252)</u>

The mortgage loans are classified as "loans and receivables". The mortgage loans are due for repayment between January 2013 and January 2017. At 31 December 2012, the fixed rate of interest on the mortgage loans ranged from 5.39% to 6.60% (2011: 2.22% to 6.60%). The loans are secured over commercial properties. Deutsche Bank AG, London Branch acts as security trustee for the loans.

The Company 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: Borehamwood Investments Limited £187,644 (2011: £5,215,000), LMM Overseas Investments Limited £688,777 (2011: £4,817,775) and Group 7 (Suffolk) Limited £128,257 (2011: £nil).

During the year, reversals of impairment provisions on mortgage loans were as follows: Chesterton Commercial £227,944 (2011: impairment charge of £227,944), Quattro Syndicate £399,234 (2011: reversal of £396,016) and Industrial Realisation £822,300 (2011: impairment charge of £822,300).

As at 31 December 2012, no impairment was charged against the Tesco and 2006/2007 Regent Capital Spectrum IV & V loans.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

8. MORTGAGE LOANS (CONTINUED)

The Borehamwood loan has been in default since October 2011, the interest payment date covenant test was breached and the mortgage loan was placed into special servicing. Subsequently, an impairment provision of £5,215,000 was booked on the loan to reflect the default based on the estimated value of the underlying property collateral. The Special Servicer had the property collateral valued on 24 April 2012 to determine the recovery income in case the property was to be sold. Negotiations are ongoing regarding the renewal of the leases with existing tenants and the Special Servicer has recommended the installation of a new private car operator in order to generate additional income.

The LLM Overseas Investments Limited loan was placed into special servicing on 14 June 2012 due to a breach of the loan-to-value test during the year. The property was therefore valued on 17 June 2012 and an impairment of £688,777 was booked based on the estimated property value. The interest for the final quarter for the year ended 31 December 2012 was partially paid from the funds held on a deposit account of the borrower. On 15 April 2013, the LLM Overseas Investments Limited Loan was repaid following the sale of the property, The Cliff Park, Bruntcliffe Road, Morley, Leeds at an amount of £3,006,650.

The Group 7 (Suffolk) Limited loan was placed into special servicing during the year due to a payment default at maturity on 20 January 2012. In January 2013, the loan was subsequently repaid by a completion of the sale of the property which resulted in a principal repayment of £976,143 after payment of sales-related and lender-level expenses. All default interest was paid in full following the sale of the property. An impairment provision of £128,257 was booked to take into consideration that the sale value of the underlying property of the loan has been designated as the estimated market value of the property at 31 December 2012.

The Chesterton Commercial loan was placed into special servicing due to a payment default at maturity on 24 April 2012. The Special Servicer has appointed receivers to gain control of the cash flow and the properties. The Special Servicer is preparing a sale strategy to recover the outstanding debt on loan. Although the loan is currently in default, there was a reversal of impairment charge on the loan by £227,944 to take account of changes in the estimated market value of the underlying properties.

The Quattro Syndicate loan was repaid in the quarter ended 22 October 2012 resulting in an impairment reversal of £399,234.

Similarly, the Industrial Realisation loan was repaid in quarter ended 22 October 2012 resulting in an impairment reversal of £822,300.

9. TRADE AND OTHER RECEIVABLES

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Other debtors	-	-	-	-
Prepayments and accrued income	<u>3,627,558</u>	<u>-</u>	<u>3,894,486</u>	<u>-</u>
	<u>3,627,558</u>	<u>-</u>	<u>3,894,486</u>	<u>-</u>

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

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

10. 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 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Cash and cash equivalents	<u>33,662,515</u>	<u>1</u>	<u>180,881</u>	<u>1</u>

The directors consider that the carrying value of cash and cash equivalents approximate their fair value

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

11. TOTAL EQUITY

Group	Issued capital £	Retained losses £	Total £
At 1 January 2012	1	(78,287,456)	(78,287,455)
Profit for the year	-	3,395,927	3,395,927
Balance at 31 December 2012	<u>1</u>	<u>(74,891,529)</u>	<u>(74,891,528)</u>

Company	Issued capital £	Retained profit £	Total £
At 1 January 2012	1	9,960	9,961
Profit for the year	-	-	-
Balance at 31 December 2012	<u>1</u>	<u>9,960</u>	<u>9,961</u>

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 31 August 2012.

DECO 12--UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

12. LOAN NOTES

This note provides information about the contractual terms of the Group's loan notes. For more information about the Group's exposure to interest rate risk, see note 14.

	Group 2012 £	Company 2012 £
At 1 January 2012	402,078,580	-
Redemptions	<u>(9,704,263)</u>	<u>-</u>
	<u>392,374,317</u>	<u>-</u>
Non-current liabilities		
Loan notes	<u>377,207,252</u>	<u>-</u>
	<u>377,207,252</u>	<u>-</u>
Current liabilities		
Loan notes	15,167,065	-
Interest payable on loan notes	<u>562,595</u>	<u>-</u>
	<u>15,729,660</u>	<u>-</u>
	Group 2011 £	Company 2011 £
At 1 January 2011	626,209,116	-
Redemptions	<u>(224,130,536)</u>	<u>-</u>
	<u>402,078,580</u>	<u>-</u>
Non-current liabilities		
Loan notes	<u>385,324,960</u>	<u>-</u>
Current liabilities		
Loan notes	16,753,620	-
Interest payable on loan notes	<u>872,748</u>	<u>-</u>
	<u>17,626,368</u>	<u>-</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.

The loan notes are secured by way of fixed and floating charges over the Company's assets.

On 13 March 2007, 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 limit on this facility was £41,000,000. At 31 December 2012, an amount of £33,327,021 (2011: £nil) of liquidity facility was drawn 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 drawn was subsequently repaid in January 2013 in accordance with the terms of the Liquidity Facility Agreement, which stipulates that the drawn amount should be repaid on the next distribution date. The liquidity facility for £41,000,000 was renewed for the period from 6 March 2013 to expire on 5 March 2014. The directors expect this facility to be renewed annually. The liquidity facility is secured by way of fixed and floating charges over the Company's assets including the mortgage loans and loan notes.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

12. LOAN NOTES (CONTINUED)

The expected maturity profile of the contractual cash flows of the loan notes and borrowings are as follows

Year ended 31 December 2012	Total £	Less than 1 year £	1-2 years £	2-5 years £	More than 5 years £
Liabilities					
Loan notes due 2020	392,374,317	15,167,065	18,312,500	358,894,752	-
Interest payable	<u>562,595</u>	<u>562,595</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>392,936,912</u>	<u>15,729,660</u>	<u>18,312,500</u>	<u>358,894,752</u>	<u>-</u>
 Year ended 31 December 2011	 Total £	 Less than 1 year £	 1-2 years £	 2-5 years £	 More than 5 years £
Liabilities					
Loan notes due 2020	402,078,580	16,753,620	111,670	26,705,789	358,507,501
Interest payable	<u>872,748</u>	<u>872,748</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>402,951,328</u>	<u>17,626,368</u>	<u>111,670</u>	<u>26,705,789</u>	<u>358,507,501</u>

The loan notes are denominated in Sterling

On 13 March 2007, the Company issued £475,000,000 Class A1 notes due January 2020, £115,000,000 Class A2 notes due January 2020, £35,000,000 Class B notes due January 2020, £28,000,000 Class C notes due January 2020, £16,000,000 Class D notes due January 2020, £2,750,000 Class E notes due January 2020 and £1,133,707 Class F notes due January 2020. Interest on the Class A1 notes is payable at a rate of three month LIBOR plus 0.16%. Interest on the Class A2 notes is payable at a rate of three month LIBOR plus 0.19%. Interest on the Class B notes is payable at a rate of three month LIBOR plus 0.27%. Interest on the Class C notes is payable at a rate of three month LIBOR plus 0.43%. Interest on the Class D notes is payable at a rate of three month LIBOR plus 0.75%. Interest on the Class E notes is payable at a rate of three month LIBOR plus 1.00%. Interest on the Class F notes is payable at a rate of three month LIBOR plus 3.00%.

At the reporting date £196,918,846 (2011: £206,219,749) in respect of the Class A1 notes was outstanding, £113,588,832 (2011: £113,823,244) in respect of Class A2 notes, £34,570,514 (2011: £34,641,857) in respect of Class B notes, £27,656,411 (2011: £27,713,486) in respect of Class C notes, £15,803,664 (2011: £15,836,277) in respect of the Class D notes, £2,716,255 (2011: £2,721,860) in respect of Class E notes and £1,119,795 (2011: £1,122,106) in respect of F 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 loans from Deutsche Bank AG in accordance with the terms of the securitisation documents.

Interest payable on the loan notes to maturity at 31 December

	Less than one year £	1 year – 5 years £	Over 5 years £	Total £
31 December 2012	<u>4,422,427</u>	<u>16,391,374</u>	<u>-</u>	<u>20,813,801</u>
31 December 2011	<u>4,233,764</u>	<u>15,630,321</u>	<u>3,763,315</u>	<u>23,627,400</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

13. TRADE AND OTHER PAYABLES

	Group 2012	Company 2012	Group 2011	Company 2011
	£	£	£	£
Other creditors	-	2,541	-	2,541
Liquidity facility loan	33,340,048	-	13,608	-
Accruals and deferred income	2,909,224	-	2,885,626	-
Deferred consideration	-	-	210,098	-
	<u>36,249,272</u>	<u>2,541</u>	<u>3,109,332</u>	<u>2,541</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. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

14. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Directors' Report on pages 2 and 6.

Financial instruments

The Group's financial instruments, other than derivatives, comprise a portfolio of commercial 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 year under review, the Group's policy that no trading in financial instruments is undertaken.

Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure using interest rate swaps. More specifically, the Group is exposed to basis risk due to the timing difference in interest payment dates on the loan notes and the mortgage loans and interest rate risk due to any variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the loan notes. This risk exposure is hedged using interest rate swaps that are taken out on inception of the securitisation. As such, the directors do not believe that the Group has any significant interest rate re-pricing exposure and therefore have not presented a sensitivity analysis to interest rate risk.

Credit risk

Credit risk on the mortgage loans arises where the mortgage loans are secured on underlying commercial properties. The maximum exposure to credit risk is the Statement of Financial Position amount. The largest single exposure to credit risk is the Tesco mortgage loan totalling £347,400,000 (2011: £347,400,000). This gives rise to a relatively high concentration risk of 91% (2011: 89%) as at 31 December 2012. The percentage concentration risk has been computed as the Tesco loan amount divided by the total net loan amount after impairment at year end. All 16 of the Tesco loan underlying properties are let to one tenant, Tesco Stores Limited and the obligations of the latter under related leases are guaranteed by Tesco Plc which is rated A-, Baa1, A by Fitch, Moody's and S&P respectively. In addition, the directors manage to get maximum out of the loans through geographic and sectoral diversification.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

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

	31 December 2012	31 December 2011
	£	£
Neither past due nor impaired	347,400,000	359,813,900
Past due but not impaired	-	-
Impaired	<u>44,591,566</u>	<u>42,264,680</u>
	391,991,566	402,078,580
Less allowance for impairment	<u>(11,037,452)</u>	<u>(11,482,252)</u>
	<u>380,954,114</u>	<u>390,596,328</u>

The interest income accrued on the impaired financial assets at year end is £275,939 (2011 £422,406)

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 same credit rating

Prepayment risk

Prepayment risk on the mortgage loans arises when these are voluntarily prepaid by the relevant borrower or borrowers thereof. With respect to all of the loans, such prepayment is contingent upon the payment of a prepayment fee. Any prepayment fees required to be paid by a borrower will be paid to Deutsche Bank AG, London Branch as part of the deferred consideration.

Liquidity risk

Interest receipts on the mortgage loans may, under certain circumstances, be delayed. Such delays could adversely affect the ability of the Company to make timely payments of interest on the loan notes. In order to protect itself against this risk, the Company has entered into a liquidity facility agreement with Danske Bank A/S (London Branch) on 13 March 2007. As well as covering delays in the payment of interest on the mortgage loans, the liquidity facility agreement will also permit the Company to make drawings to pay certain expenses from time to time of the Company.

The base currency amount of the liquidity facility loan shall not at any time exceed £41,000,000 and can only be extended to a date that is not more than 364 days from the last day of the previous liquidity commitment period. At 31 December 2012, an amount of £33,327,021 (2011 £nil) of liquidity facility was drawn during the year. The liquidity facility for £41,000,000 was renewed on 4 February 2013 for the period from 6 March 2013 up to 5 March 2014. The directors expect this facility to be renewed annually.

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 Company.

The undiscounted contractual cash flows for principal and interest on the loan notes have been disclosed in note 12.

The redemption of the notes is dependent on the receipt of payments on the mortgage loans. In accordance with the respective Prospectus for each of 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 and Class F. Interest payable on loan notes was estimated based on the floating rates as at 31 December 2012.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

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

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern. The Group is not subject to any external capital requirements. The gearing ratios at 31 December 2012 and 2011 were 117.91 % and 119.84% respectively.

Fair values

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

	Notes	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Group					
Mortgage loans	8	380,954,114	386,541,399	390,596,328	355,409,648
Trade and other receivables	9	3,627,558	3,627,558	3,894,486	3,892,547
Cash and cash equivalents	10	<u>33,662,515</u>	<u>33,662,515</u>	<u>180,881</u>	<u>180,881</u>
Total assets		<u>418,244,187</u>	<u>423,831,472</u>	<u>394,671,695</u>	<u>359,483,076</u>
Loan notes	12	(392,374,317)	(322,593,374)	(402,078,580)	(288,512,231)
Interest payable	12	(562,595)	(562,595)	(872,748)	(872,748)
Derivative financial instruments	15	(63,948,024)	(63,948,024)	(66,897,417)	(66,897,417)
Trade and other payables	13	(36,249,272)	(36,249,272)	(3,109,332)	(3,109,332)
Current tax liability		<u>(1,507)</u>	<u>(1,507)</u>	<u>(1,073)</u>	<u>(1,073)</u>
Total liabilities		<u>(493,135,715)</u>	<u>(423,354,772)</u>	<u>(472,959,150)</u>	<u>(359,392,801)</u>
Company					
Investment in subsidiary	6	12,501	12,501	12,501	12,501
Cash and cash equivalents	10	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total assets		<u>12,502</u>	<u>12,502</u>	<u>12,502</u>	<u>12,502</u>
Other creditors		(2,541)	(2,541)	(2,541)	(2,541)
Current tax liability		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities		<u>(2,541)</u>	<u>((2,541))</u>	<u>(2,541)</u>	<u>((2,541))</u>

Fair value hierarchy

Fair value of mortgage loans are based on fair value of 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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14. FINANCIAL RISK MANAGEMENT (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 company are explained in the accounting policies note

The only financial instruments held at fair value on the Statement of Financial Position 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

As at 31 December 2012

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
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Derivative financial instruments	<u>63,948,024</u>	<u>-</u>	<u>63,948,024</u>	<u>-</u>
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As at 31 December 2011

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
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Derivative financial instruments	<u>66,897,417</u>	<u>-</u>	<u>66,897,417</u>	<u>-</u>
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The only financial instruments held at fair value on the Statement of financial position 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

Interest rate risk profile of financial liabilities

All of the Group's financial liabilities are floating rate and carry interest rates based on the relevant three-month LIBOR rate

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14. FINANCIAL RISK MANAGEMENT (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 At 31 December 2012	Weighted average effective interest rate %	1 to 3 months £	Non- interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	3,627,558	-	3,627,558
Mortgage loans	6.917%	-	-	380,954,114	380,954,114
Cash and cash equivalents	-	<u>33,662,515</u>	<u>-</u>	<u>-</u>	<u>33,662,515</u>
Total assets		<u>33,662,515</u>	<u>3,627,558</u>	<u>380,954,114</u>	<u>418,244,187</u>
Liabilities					
Accruals and tax liabilities	-	-	36,250,779	-	36,250,779
Derivative financial instruments	-	-	63,948,024	-	63,948,024
Interest bearing loans	1.127%	<u>392,374,317</u>	<u>-</u>	<u>-</u>	<u>392,374,317</u>
Total liabilities		<u>392,374,317</u>	<u>100,198,803</u>	<u>-</u>	<u>492,573,120</u>
Company					
At 31 December 2012	Weighted average effective interest rate %	1 to 3 months £	Non -interest bearing £	Fixed rate £	Total £
Assets					
Investment in subsidiary	-	-	12,501	-	12,501
Cash and cash equivalents	-	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total assets		<u>1</u>	<u>12,501</u>	<u>-</u>	<u>12,502</u>
Liabilities					
Other creditors	-	-	<u>2,541</u>	<u>-</u>	<u>2,541</u>
Total liabilities		<u>-</u>	<u>2,541</u>	<u>-</u>	<u>2,541</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Group At 31 December 2011	Weighted average effective interest rate %	1 to 3 months £	Non- interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	3,892,947	-	3,892,947
Mortgage loans	4.504%	-	-	390,596,328	390,596,328
Cash and cash equivalents	-	<u>180,881</u>	<u>-</u>	<u>-</u>	<u>180,881</u>
Total assets		<u>180,881</u>	<u>3,892,947</u>	<u>390,596,328</u>	<u>394,670,156</u>
Liabilities					
Accruals and tax liabilities	-	-	3,979,134	-	3,979,134
Derivative financial instruments	-	-	66,897,417	-	66,897,417
Interest bearing loans	1.050%	<u>402,078,580</u>	<u>-</u>	<u>-</u>	<u>402,078,580</u>
Total liabilities		<u>402,078,580</u>	<u>70,876,551</u>	<u>-</u>	<u>472,955,131</u>

Company At 31 December 2011	Weighted average effective interest rate %	1 to 3 months £	Non -interest bearing £	Fixed rate £	Total £
Assets					
Investment in subsidiary	-	-	12,501	-	12,501
Cash and cash equivalents	-	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total assets		<u>1</u>	<u>12,501</u>	<u>-</u>	<u>12,502</u>
Liabilities					
Other creditors	-	<u>-</u>	<u>2,541</u>	<u>-</u>	<u>2,541</u>
Total liabilities		<u>-</u>	<u>2,541</u>	<u>-</u>	<u>2,541</u>

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Group 2012 £	Group 2011 £
Interest rate swaps fair value at start of year	(66,897,417)	(52,340,643)
Change in fair value	<u>2,949,393</u>	<u>(14,556,774)</u>
Interest rate swaps fair value at end of year	<u>(63,948,024)</u>	<u>(66,897,417)</u>

The notional principal amount of all the outstanding interest rate swap contracts at 31 December 2012 was £766,203,748 (2011, £803,306,539). The Company pays a fixed rate ranging from 4.89% to 5.39% (2011 0.974% to 5.39%) and receives 3-month LIBOR (2011 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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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) consistent with IAS 39, the option does not require separation. A similar hybrid instrument arises on the mortgage loan assets whereby the Group has effectively sold a put option on the mortgage loans exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

The table below reflects the undiscounted contractual cash flows of derivative financial instruments at the reporting 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 December 2012	£	£	£	£	£
	63,948,024	64,154,781	4,159,586	12,478,758	47,516,436
	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 December 2011	£	£	£	£	£
	66,897,417	69,812,416	844,924	11,385,303	57,582,189

16. RELATED PARTY TRANSACTIONS

The Company is a special-purpose vehicle controlled by its Board of directors. On 31 August 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 Group and the Company. Directors' emoluments during the year amounted to £622 (2011: £nil) for their services as directors to the Company during the year. The Company paid corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The total fees payable for corporate services for the year ended 31 December 2012 amounted to £13,783 (2011: £10,411) including irrecoverable VAT with £nil (2011: £1,831) still unpaid at year end.

17. ULTIMATE PARENT UNDERTAKING

Deco 12-UK 4 Holding Limited is a company registered in England and Wales.

Prior to 31 August 2012, Wilmington Trust SP Services (London) Limited held one share in Deco 12-UK 4 Holding Limited under a declaration of trust for charitable purposes. The one share held by Wilmington Trust SP Services (London) Limited was transferred to Castlewood CS Holdings Limited on 31 August 2012.

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

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

18. SUBSEQUENT EVENTS

On 29 January 2013, the amount of liquidity facility of £33,327,021 drawn as at 31 December 2012 was repaid to Danske Bank A/S (London Branch). In addition, on 4 February 2013, the liquidity facility was renewed for the period from 6 March 2013 up to 5 March 2014.

On 15 April 2013, the LMM Overseas Investments Limited loan was repaid following the sale of the property, The Cliff Park, Bruntcliffe Road, Morley, Leeds at a price of £3,006,650. As at 31 December 2012, the mortgage loan balance was £8,463,365 (including an impairment provision of £5.5 million). Subsequently, the Company made a loss of £5,456,715 on the sale of the property which was approximately the cumulative impairment provided for on the mortgage loan.