

Company Number 06085054 (England and Wales)

**Eloc 26 Peco Holder Limited**

**Report and Financial Statements**

**Year ended**

**30 June 2011**

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**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Annual report and financial statements for the year ended 30 June 2011**

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**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Officers and professional advisers**

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**Directors**

SFM Directors Limited  
SFM Directors (No 2) Limited  
Vinoy Nursiah

**Secretary and registered office**

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

**Company number**

06085054 (England & Wales)

**Bankers**

HSBC Bank plc  
8 Canada Square,  
London,  
E14 5HQ

**Solicitors**

Ashurst  
Broadwalk House,  
5 Appold Street,  
London,  
EC2A 2HA

**Auditors**

BDO LLP  
55 Baker Street,  
London,  
W1U 7EU

## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

### **Report of the directors for the year ended 30 June 2011**

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The directors present their annual report together with the audited financial statements of Eloc 26 Peco Holder Limited (the "company"), and the group, for the year ended 30 June 2011

#### **Principal activity and business review**

The company was incorporated on 6 February 2007. It is the parent company of Triton (European Loan Conduit No 26) plc (the "subsidiary company" and together "the group"). The subsidiary company was engaged in the acquisition of mortgage loans financed by the issuance of mortgage backed floating rate notes due in 2019 (the "Notes").

The subsidiary company was incorporated to operate as a special purpose company for a securitisation transaction, and in 2007 acquired a portfolio of mortgage loans for a consideration of £601,150,000, which had a fair value of £587,128,759 and is secured by charges over commercial property in the United Kingdom.

The subsidiary company also became party to a number of interest rate swap contracts at the same date - which had a fair value of £14,021,241. No premium or fee was paid by the subsidiary company when it was assigned the interest rate swap contracts at the time of acquisition of the mortgage loan portfolio by the originator of those loans. The acquisition of the portfolio of mortgage loans was financed by the issuance of Notes.

As at 30 June 2011 the amortised cost carrying value of mortgage loans amounted to £595,499,766 (2010 £592,609,929).

In the event that all amounts outstanding under the Notes should have become due and payable, and that there is no reasonable likelihood of there being any further realisations (whether arising from the enforcement of the Notes or otherwise) available to pay amounts outstanding under the Notes, the company will have the option, under a Post-Enforcement Call Option, to purchase all the Notes then outstanding in consideration for the payment of £0.01 in respect of each Note from the subsidiary company. Upon the exercise of such Post-Enforcement Call Option, the Noteholders will cease to have any rights against the subsidiary company.

The macroeconomic climate remains challenging for all commercial enterprises, and this in turn continues to adversely affect the availability of credit. The group, however, is not impacted with regard to its ongoing operations. Its business rationale and structure continue as originally envisaged in the offering circular issued at the time funding was raised in April 2007 as detailed within this directors report and in the relevant notes to the financial statements.

At the reporting date the group had two loans due for repayment in 2011, one due on the 20 July 2011 with a carrying value of £119,000,000 which was repaid on 27 July 2011 and the other due on 20 October 2011 with a carrying value of £285,522,794 the maturity date of which has been extended until 23 April 2013. The other two loans are due in 2013. While these loans are currently meeting all recognised covenants, there is a risk that full repayment may not be made on the agreed dates. The sponsoring bank, Morgan Stanley, are appointed to monitor the performance of the asset and were repayment not to be made, it is likely a special servicing agent would be appointed to ensure maximum value was returned to Noteholders. If the assets are not able to repay the outstanding capital balances on maturity then the loans may be extended without the need to seek Noteholder approval. This action would be taken, if in the view of the appointed special servicing agent it was the most appropriate method of ensuring maximum value for Noteholders. The group, however, is only obliged to pay interest and principal to the Noteholders to the extent that it has such funds available to it.

## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

### **Report of the directors for the year ended 30 June 2011 (*Continued*)**

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#### **Future Developments**

The directors do not anticipate any changes to the nature of the company's or the group's business, or its expected level of activity

#### **Results and dividends**

The consolidated profit and loss account is set out on page 9 and shows the profit for the year. The directors do not recommend the payment of a dividend (2010 Nil)

The directors recognise that the implementation of the group's accounting policies, as set out in the notes to the Financial Statements, in respect of derivative contracts, may result in volatility in the consolidated profit and loss account and a consequential impact on the group's balance sheet

Such contracts have been put in place to hedge the group's exposure to interest rate risks and to ensure a level of certainty surrounding cash flows. The directors do not consider that the application of such accounting policies will affect either the commercial integrity or the expected performance of the group as a whole

There have been no events since the balance sheet date which would materially affect the position of the group

#### **Key performance indicators, principal risks and uncertainties**

Given the straightforward nature of the business, the directors do not consider an analysis using KPIs to be necessary for the understanding of the development, performance or position of the group

However, the performance of the group is monitored by comparing the actual cash flows against planned cash flows on the Notes. The cash flows for the year ended 30 June 2011 as presented in the cash flow statement and note 19 are in accordance with expectations based on the level of the group's activity, receipts from repayments of mortgage loans and the repayment of Notes during the year

The group's after tax profit for the year amounting to £23,930,142 (2010 £74,044) was largely as a result of the application of Financial Reporting Standard 26, "Financial Instruments: Measurement", ("FRS 26"). The fair value movement on the interest rate swaps and the currency swap was £6,856,129 (2010 £22,124,697), arising from movements in LIBOR and currency rates. The amortised cost adjustment to the mortgage loan portfolio resulted in other finance income of £2,889,837 (2010 £2,757,475)

Notes outstanding at 30 June 2011 amounted to £607,929,491 (2010 £611,353,115)

## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

### **Report of the directors for the year ended 30 June 2011 (*Continued*)**

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#### **Issue of shares**

The authorised share capital of the company consists of £1,000 comprising 1,000 ordinary shares of £1 each. The issued share capital consists of £2 comprising 2 fully paid ordinary shares of £1 each.

#### **Directors**

The directors of the company during the year and subsequently were

SFM Directors Limited

SFM Directors (No. 2) Limited

James Macdonald

(resigned on 31 October 2001)

Vinoy Nursiah

(appointed on 31 October 2011)

#### **Directors' Indemnities**

The company has made qualifying third party indemnity provisions for the benefit of Vinoy Nursiah, SFM Directors Limited and SFM Directors (No.2) Limited. Enhanced indemnities are provided to the directors by Structured Finance Management Limited against liabilities and associated costs which they could incur in the course of their duties to the company. These indemnity provisions remain in force at the date of this report.

#### **Secretary**

The company secretary during the year and subsequently was SFM Corporate Services Limited.

#### **Financial Instruments**

The group's operations are financed primarily by means of the Notes. The group issued such financial instruments to finance the acquisition of its portfolio of mortgage loans. The group uses derivative financial instruments (interest rate swaps and currency swaps) to manage the interest rate risks and currency risk arising from the company's source of income (mortgage loans) and its principal source of finance (Notes).

The group does not enter into speculative derivative contracts or trade in financial instruments.

The principal risks arising from the group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The principal nature of such risks are summarised below.

The group's most significant unhedged risk is credit risk, and the maximum exposure in relation to financial instruments is the balance sheet carrying value of the mortgage loans.

The financial instruments quantitative disclosure can be found in note 15 to the financial statements.

## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

### **Report of the directors for the year ended 30 June 2011 (*Continued*)**

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#### **Credit risk**

The group's business objective rests on the purchase of a high quality mortgage loan portfolio. While the underlying mortgage loans are secured by first charges over commercial properties in the United Kingdom, the company considered the evaluation of an applicant's ability to service a loan according to its terms to be the principal factor in assessing the credit risk and the decision to lend. The loan portfolio includes four mortgage loans.

The recent decline in values of the commercial property market has increased the underlying risk within the group and the sponsoring bank, Morgan Stanley, continue to monitor the performance of the mortgage loans and report on the performance through the Investor Reports.

#### **Liquidity risk**

The group's mortgage loan assets are financed principally by issuance of the Notes. This financing policy substantially reduces the group's liquidity risk by matching the maturity profile of the group's funding to the profile of the assets being funded.

The Notes are subject to mandatory redemption in part on each interest payment date in an amount equal to the principal received or recovered in respect of the underlying mortgage loans.

If not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their principal amounts outstanding on the interest payment date falling in October 2019.

A liquidity facility is available to provide temporary liquidity. At 30 June 2011 the drawings on the facility amounted to £Nil (2010: £Nil).

There are no other committed facilities at 30 June 2011.

#### **Interest rate risk**

Interest rate risk exists where interest rates on assets and liabilities are either set according to different bases or reset at different times. The group minimises its exposure to interest rate risk by using derivative financial instruments.

The group uses interest rate swap contracts to minimise its exposure to interest rate mismatches between its floating rate liabilities and its fixed rate assets. The group also uses a hybrid currency swap contract (see Currency risk below) to minimise its exposure to interest rate mismatches between the London Inter-Bank Offered Rate for sterling deposits and the London Inter-Bank Offered Rate for US dollar deposits.

#### **Currency risk**

The group has a class of Notes ("Class B") denominated in US dollars and receiving quarterly interest at an agreed upon margin above the London Inter-Bank Offered Rate for three month US dollar deposits. All of the mortgage loan assets are denominated in sterling, and all other classes of Notes receive interest at an agreed upon margin above the London Inter-Bank Offered Rate for three-month sterling deposits. Interest and principal is paid in US dollars on the Class B Notes, whilst all interest and principal receipts are received in sterling in respect of the mortgage loan assets. The group uses a hybrid currency swap transaction to manage such currency exposure on the interest and principal payments on the Class B Notes.

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Report of the directors for the year ended 30 June 2011 (*Continued*)**

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**Statement of disclosure of information to auditors**

The directors confirm that

- a) so far as the directors are aware, there is no relevant information of which the company's auditors are unaware, and
- b) each director has taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

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

**Auditors**

BDO LLP ("BDO") have expressed their willingness to continue in office. Accordingly, a written shareholders' resolution will be passed to re-appoint BDO as auditors of the company.

**On behalf of the Board**



Helena Whitaker  
Per pro SFM Directors Limited  
**As Director**

16 January 2012



**Statement of directors' responsibilities**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 2006 and 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 United Kingdom Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

### **Report of the independent auditors**

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#### **Independent auditors' report to the members of Eloc 26 Peco Holder Limited**

We have audited the consolidated financial statements of Eloc 26 Peco Holder Limited and the group for the year ended 30 June 2011 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### *Respective responsibilities of directors and auditors*

As explained more fully in the statement of directors' responsibilities, 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 (APB's) Ethical Standards for Auditors.

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

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

#### *Opinion on financial statements*

In our opinion the consolidated financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2011 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

#### *Opinion on other matters 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.

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Report of the independent auditors (*Continued*)**

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*Matters on which we are required to report by exception*

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept 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



Daniel Taylor (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
16 January 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Consolidated profit and loss account for the year ended 30 June 2011**

	Note	2011 £	2010 £
Interest receivable	3	33,469,591	33,438,338
Interest payable and similar charges	4	(5,724,097)	(5,758,109)
<b>Net interest income</b>		<b>27,745,494</b>	<b>27,680,229</b>
Operating expenses		(382,133)	(414,572)
Movement in fair value of currency swaps		(3,000,572)	5,234,410
Movement in fair value of interest rate swaps		(3,855,557)	(27,359,107)
Foreign exchange gain/(loss)		3,423,624	(5,066,190)
<b>Profit on ordinary activities before taxation</b>	5	<b>23,930,856</b>	<b>74,770</b>
Taxation on profit on ordinary activities	7	(714)	(726)
<b>Profit on ordinary activities after taxation being the profit for the financial year</b>	14	<b>23,930,142</b>	<b>74,044</b>

All amounts relate to continuing activities

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year after taxation stated above and their historical cost equivalents. This statement does not apply to differences arising from the application of fair value accounting rules under FRS 26

There are no recognised gains or losses other than the profit for the year

The notes on pages 13 to 25 form part of these financial statements

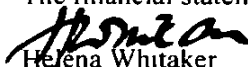
**ELOC 26 PECO HOLDER LIMITED**

Company registration number 06085054

**Consolidated balance sheet for the year ended 30 June 2011**

	Note	2011 £	2011 £	2010 £	2010 £
<b>Assets employed:</b>					
<b>Fixed assets</b>					
Mortgage loans	10		190,976,972		592,609,929
Derivative financial instruments			10,033,841		12,899,059
			<u>201,010,813</u>		<u>605,508,988</u>
<b>Current assets</b>					
Debtors	11	411,234,095		6,698,290	
Cash at bank		9,155		8,888	
		<u>411,243,250</u>		<u>6,707,178</u>	
<b>Creditors: amounts falling due within one year</b>	12	(406,906,028)		(2,244,252)	
		<u></u>		<u></u>	
<b>Net current assets</b>			<u>4,337,222</u>		<u>4,462,926</u>
			<u>205,348,035</u>		<u>609,971,914</u>
<b>Financed by:</b>					
<b>Creditors: amounts falling due after more than one year</b>					
Notes	12		203,406,697		611,353,115
Derivative financial instruments			22,374,481		42,982,084
			<u>225,781,178</u>		<u>654,335,199</u>
<b>Shareholders' funds</b>					
Called up share capital	13	2		2	
Share premium account		12,499		12,499	
Profit and loss account		(20,445,644)		(44,375,786)	
		<u></u>		<u></u>	
	14		(20,433,143)		(44,363,285)
			<u>205,348,035</u>		<u>609,971,914</u>

The financial statements were approved by the Board and authorised for issue on 16 January 2012



Helena Whitaker

Per pro SFM Directors Limited

As Director

The notes on pages 13 to 25 form part of these financial statements

**ELOC 26 PECO HOLDER LIMITED**

Company registration number 06085054

**Company balance sheet for the year ended 30 June 2011**

	Note	2011 £	2011 £	2010 £	2010 £
<b>Assets employed:</b>					
<b>Fixed assets</b>					
Investments	9		12,502		12,502
<b>Current assets</b>					
Debtors	11	12,501		12,501	
<b>Creditors: amounts falling due within one year</b>	12	(12,502)		(12,502)	
<b>Net current liabilities</b>			(1)		(1)
			12,501		12,501
<b>Financed by:</b>					
<b>Shareholders' funds</b>					
Called up share capital	13	2		2	
Share premium account		12,499		12,499	
	14		12,501		12,501
			12,501		12,501

The financial statements were approved by the Board and authorised for issue on 16 January 2012



Helena Whitaker  
Per pro SFM Directors Limited  
As Director

The notes on pages 13 to 25 form part of these financial statements

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Consolidated cash flow statement for the year ended 30 June 2011**

	Note	2011 £	2011 £	2010 £	2010 £
<b>Net cash inflow from operating activities</b>	16		831		1,654
<b>Returns on investments and servicing of finance</b>					
Interest received on bank balances		162		177	
			162		177
<b>Taxation</b>			(726)		(745)
<b>Increase in cash in the year</b>	17		267		1,086

The notes on pages 13 to 25 form part of these financial statements

## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

Notes forming part of the financial statements for the year ended 30 June 2011

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### **1 Accounting policies**

The financial statements have been prepared under the historical cost convention as modified by the application of fair value accounting rules to derivative financial instruments and are in accordance with applicable accounting standards. Accordingly the requirements of FRS 26 and FRS 29 are adopted in these accounts. The following principal accounting policies have been applied.

#### **Basis of preparation**

The financial statements incorporate the results of the company's wholly owned subsidiary which was acquired on incorporation.

#### **Interest receivable and payable**

Interest receivable and payable are accounted for using the effective interest method. Interest receivable includes bank interest, interest receivable from borrowers and the amortised cost adjustment to the mortgage loans.

#### **Investments**

Investments are stated at cost less provision for any impairment.

#### **Financial instruments**

Financial instruments are recognised on the balance sheet when the group becomes party to the contractual provisions of the instrument.

##### *Mortgage loans*

The mortgage loans advanced by the group are initially recognised at fair value. The mortgage loans are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest income over the year to repayment is recognised at a constant rate on the balance of the mortgage loans carried in the balance sheet.

The calculation of amortised cost using the effective interest rate method includes deferred consideration payable to the originator, this is because deferred consideration represents a fee payable that is considered an integral part of the effective rate relating to the mortgage loans.

##### *Mortgage backed floating rate notes*

Mortgage backed floating rate notes ("the Notes") issued by the company are initially recognised at fair value. The Notes are subsequently measured at amortised cost using the effective interest rate method.



## **ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

### **Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)**

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#### **1 Accounting policies (*continued*)**

##### *Derivatives*

Derivatives which comprise interest rate swaps and a currency swap are initially and subsequently measured at fair value

Changes in the fair value of derivative financial instruments are recognised in the profit and loss account as they arise

With effect from 1 July 2009 the company adopted the amendments to FRS 29 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, with directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable data (that is, unobservable inputs)

The fair value of the interest rate swaps and currency swap is determined by the holder of the instrument using valuation techniques. These valuation techniques maximise the use of observable market data, such as the Bank of England's LPI and exchange rates. Accordingly, the fair valuation of the swaps is deemed to be Level 2

##### **Foreign currency**

Transactions entered into in a currency other than the group's functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the profit and loss account

##### **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax balances are not discounted

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)****1 Accounting policies (continued)****Going concern**

Whilst the group has net liabilities of £20,433,143 at 30 June 2011 (2010 £44,363,285) the directors have continued to prepare the financial statements on a going concern basis because they consider that the group will continue to be able to meet its debts as they fall due. The group has been structured to ensure that its cash inflows in respect of the mortgage loans are matched to cash outflows in respect of the Notes, with any interest rate mismatches mitigated by the use of interest rate and currency swaps. The company is only obliged to pay interest and principal to the Noteholders to the extent that it has such funds available to it.

**2 Segmental analysis**

The group's operations are carried out solely in the UK. The results and net assets of the company and group are derived from its investment in mortgage loans.

**3 Interest receivable**

	2011 £	2010 £
Mortgage loan interest	30,579,592	30,680,686
Other finance income on mortgage loans (note 10)	2,889,837	2,757,475
Bank interest	162	177
	<u>33,469,591</u>	<u>33,438,338</u>

All interest receivable was in respect of financial assets measured at amortised cost.

**4 Interest payable and similar charges**

	2011 £	2010 £
Notes	5,724,097	5,758,109

All interest payable was in respect of financial liabilities measured at amortised cost.

**5 Profit on ordinary activities before taxation**

	2011 £	2010 £
This has been arrived at after charging		
Auditor's remuneration – audit services	31,452	19,359

**6 Directors and employees**

The group has no employees. Please see related parties note, note 20, for details of Corporate Services fees paid to a related party of the directors.

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)****7 Taxation on profit/(loss) on ordinary activities**

As required by the Taxation of Securitisation Companies Regulations 2006, the Issuer Profit Amount, being 0.01% of the available interest receipts as defined in the Offering Circular of the subsidiary company, is the 'retained profit' for the year for the purposes of calculating profits chargeable to corporation tax

	2011 £	2010 £
Profit on ordinary activities before tax	23,930,856	74,770
Taxation on profit on ordinary activities at the small companies rate of 20.75% (2010: 21%)	4,965,653	15,702
Effects of Non-taxable items	(4,964,939)	(14,976)
Adjustment in respect of prior years	-	-
Current tax charge	714	726

For the purposes of calculating the tax charge, the issuer profit amount is £3,441 (2010: £3,549). This is 0.01% of the interest receivable, before deferred consideration and the amortised cost adjustment.

**8 Profit of parent company**

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year amounted to £Nil (2010: nil).

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)**9 Investments**

				Shares in subsidiary undertakings £
<i>Cost</i>				
At 30 June 2011 and 2010				<b>12,502</b>
Subsidiary Undertakings	Cost £	Holding	Country of incorporation	Activity
Triton (European Loan Conduit No 26) Plc	12,502	100%	United Kingdom	Acquisition of mortgage loans financed by the issuance of mortgage backed floating rate notes

**10 Mortgage loans**

The mortgage loans are secured by first charges on commercial properties in the United Kingdom

	Group 2011 £	Group 2010 £
Amortised cost at 1 July	<b>592,609,929</b>	589,852,454
Other finance income on mortgage loans (note 3)	<b>2,889,837</b>	2,757,475
	<hr/>	<hr/>
Amortised cost at 30 June	<b>595,499,766</b>	592,609,929
	<hr/>	<hr/>

**ELOC 26 PECO HOLDER LIMITED**

Company number 06085054

**Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)****10 Mortgage loans (continued)**

The mortgage loans are due as follows

	Group 2011 £	Group 2010 £
Within one year	404,522,794	-
After one year	190,976,972	592,609,929
	<u>595,499,766</u>	<u>592,609,929</u>

The portfolio of mortgage loans has coupon rates ranging from 5.64% to 6.22% (2010 5.64% to 6.22%). The effective rates on the mortgage loans range from 6.57% to 6.74% (2010 6.57% to 6.74%). One of the mortgage loans is floating rate and bears quarterly interest at a margin of 0.65% (2010 0.65%) above the London Inter-Bank Offered Rate for three-month sterling deposits. The stated coupon rate for this floating rate loan is equal to the effective interest rate.

**11 Debtors**

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
<b>Amounts falling due within one year:</b>				
Mortgage loans	404,522,794			
Accrued interest receivable	6,698,800	-	6,685,789	-
Other debtors	12,501	12,501	12,501	12,501
	<u>411,234,095</u>	<u>12,501</u>	<u>6,698,290</u>	<u>12,501</u>

**12 Creditors**

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
<b>Amounts falling due within one year:</b>				
Notes	404,522,794			
Accrued interest payable	1,074,738	-	926,650	-
Deferred consideration payable	1,199,120	-	1,216,164	-
Accruals	108,662	-	100,712	-
Amount owed to subsidiary undertaking	-	12,502	-	12,502
Taxation	714	-	726	-
	<u>406,906,028</u>	<u>12,502</u>	<u>2,244,252</u>	<u>12,502</u>

The amount owed to the subsidiary undertaking is unsecured, interest free and repayable on demand.

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Notes forming part of the financial statements for the year ended 30 June 2011 *(Continued)***12 Creditors (continued)**

	<b>Group 2011 £</b>	<b>Company 2011 £</b>	<b>Group 2010 £</b>	<b>Company 2010 £</b>
<b>Amounts falling due after more than one year</b>				
Notes	203,406,697	-	611,353,115	-
Derivative financial instrument	22,374,481	-	42,982,084	-
	<u>225,781,178</u>	<u>-</u>	<u>654,335,199</u>	<u>-</u>

The Notes are secured over the subsidiary company's portfolio of mortgage loans

The Notes are subject to mandatory redemption in part on each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage loans. If not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount outstanding on the interest payment date falling in October 2019.

Class B Notes are denominated in US dollars and the change in the carrying value of the Notes falling due after more than one year is solely as a result of the retranslation to sterling at the rate prevailing at the balance sheet date.

**13 Share capital**

	<b>2011 £</b>	<b>2010 £</b>
<b>Group and company</b>		
<i>Authorised</i>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Called up, issued and allotted</i>		
Ordinary shares of £1 each 2 fully paid	<u>2</u>	<u>2</u>

Further to the issue of the initial fully paid subscriber share an additional £1 fully paid ordinary share was also allotted at a premium of £12,498.50

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Notes forming part of the financial statements for the year ended 30 June 2011 *(Continued)***14 Reconciliation of movements in shareholders' (deficit)/funds**

	<b>Group 2011 £</b>	<b>Company 2011 £</b>	<b>Group 2010 £</b>	<b>Company 2010 £</b>
Profit for the year	<b>23,930,142</b>	-	74,044	-
Net changes in shareholders' (deficit)/funds	<b>23,930,142</b>	-	74,044	-
Opening shareholders' (deficit)/funds	<b>(44,363,285)</b>	<b>12,501</b>	(44,437,329)	12,501
Closing shareholders' (deficit)/funds	<b>(20,433,143)</b>	<b>12,501</b>	(44,363,285)	12,501

**15 Financial instruments**

The narrative disclosure required by Financial Reporting Standard 29, "Financial Instruments Disclosures", in relation to the company's financial risk management objectives and policies and the nature of the financial instruments used during the year to mitigate interest rate, currency and liquidity exposure is shown in the Directors' Report under the heading 'Financial Instruments'

The group does not enter into speculative derivative contracts or trade in financial instruments. Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policy.

**Maturity of financial liabilities**

The maturity of the gross contractual cash flows on the group's financial liabilities is shown below. In calculating the maturity analysis, it has been assumed that the London Inter-Bank Offered Rates for three-month sterling deposits, the London Inter-Bank Offered Rate for three-month US dollar deposits and the UK sterling – US dollar exchange rate would have remained constant at the conditions existing as at 30 June 2011.

	<b>2011 £</b>	<b>2010 £</b>
Less than one month	<b>127,140,443</b>	2,894,750
In more than one month but less than three months		-
In more than three months but less than one year	<b>295,509,688</b>	22,694,701
In more than one year but not more than two years	<b>8,088,194</b>	421,300,088
In more than two years but not more than three years	<b>207,040,591</b>	9,128,900
In more than three years but not more than four years	-	210,770,114
In more than four years but not more than five years	-	-
	<b>637,778,916</b>	<b>666,788,553</b>

**ELOC 26 PECO HOLDER LIMITED**

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**Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)****15 Financial instruments (continued)****Maturity of financial liabilities (continued)**

Interest on floating rate liabilities is payable quarterly in arrears at the following rates above London Inter-Bank Offered Rates for three-month sterling deposits, except for the Class B Notes which are payable quarterly in arrears at the London Inter-Bank Offered Rate for three-month US dollar deposits,

	2011 £	2010 £	Coupon rate and effective interest rate
Class A1 Notes	335,507,447	335,507,447	LIBOR + 0.16%
Class A2 Notes	99,409,614	99,409,614	LIBOR + 0.17%
Class B Notes (denominated US dollar)	54,508,165	57,931,789	LIBOR + 0.155%
Class C Notes	39,173,993	39,173,993	LIBOR + 0.24%
Class D Notes	9,935,641	9,935,641	LIBOR + 0.28%
Class E Notes	19,970,638	19,970,638	LIBOR + 0.42%
Class F Notes	10,357,089	10,357,089	LIBOR + 0.50%
Class G Notes	20,813,764	20,813,764	LIBOR + 0.68%
Class H Notes	18,253,140	18,253,140	LIBOR + 0.85%
	<u>607,929,491</u>	<u>611,353,115</u>	

**Maturity of financial assets**

The maturity of the gross contractual cashflows on the company's financial assets is shown below. In calculating the maturity analysis, it has been assumed that the London Inter-Bank Offered Rates for three-month sterling deposits would have remained constant at the conditions existing as at 30 June 2011.

	2011 £	2010 £
Less than one month	127,891,952	7,381,261
In more than one month but less than three months	-	-
In more than three months but less than one year	301,461,510	28,891,474
In more than one year but not more than two years	14,475,256	428,637,886
In more than two years but not more than three years	199,616,314	13,976,855
In more than three years but not more than four years	-	199,473,835
In more than four years but not more than five years	-	-
	<u>643,445,032</u>	<u>678,361,311</u>

The weighted average term of the mortgage loans is 1.03 years (2010: 2.03 years)



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Notes forming part of the financial statements for the year ended 30 June 2011 *(Continued)***15 Financial instruments (continued)****Fair value of financial assets and liabilities**

The following table shows the book value and fair value of the group's financial assets and liabilities

	Group Book value 2011 £	Group Fair value 2011 £	Group Book value 2010 £	Group Fair value 2010 £
<b>Assets</b>				
Mortgage loans	595,499,766	620,297,276	592,609,929	640,904,878
Cash	9,155	9,155	8,888	8,888
Debtors	6,711,301	6,711,301	6,698,290	6,698,290
	<u>602,220,222</u>	<u>627,017,732</u>	<u>599,317,107</u>	<u>647,612,056</u>
<b>Liabilities</b>				
Notes	607,929,491	607,929,491	611,353,115	611,353,115
Accruals	2,382,520	2,382,520	2,243,526	2,243,526
	<u>610,312,011</u>	<u>610,312,011</u>	<u>613,596,641</u>	<u>613,596,641</u>
<b>Derivative financial instruments</b>				
Interest rate swaps	(22,374,481)	(22,374,481)	(42,982,084)	(42,982,084)
Currency swap	10,033,841	10,033,841	12,899,059	12,899,059
	<u>(12,340,640)</u>	<u>(12,340,640)</u>	<u>(30,083,025)</u>	<u>(30,083,025)</u>

Fair values of financial assets, liabilities and derivatives have been determined by either market values or discounting cash payments at prevailing rates of interest having regard to the specific risk attached to them as appropriate

**Categorisation of financial assets and financial liabilities**

	Group Derivatives at fair value through profit or loss		Group Loans and receivables measured at amortised cost		Group Financial liabilities measured at amortised cost	
	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £
Mortgage loans	-	-	595,499,766	592,609,929	-	-
Debtors	-	-	6,711,301	6,698,290	-	-
Cash	-	-	9,155	8,888	-	-
Accruals	-	-	-	-	2,382,520	2,243,526
Notes	-	-	-	-	607,929,491	611,353,115
Interest rate swaps	(22,374,481)	(42,982,084)	-	-	-	-
Currency swap	10,033,841	12,899,059	-	-	-	-
	<u>(12,340,640)</u>	<u>(30,083,025)</u>	<u>602,220,222</u>	<u>599,317,107</u>	<u>610,312,011</u>	<u>613,596,641</u>

**ELOC 26 PECO HOLDER LIMITED**

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**Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)****15 Financial instruments (continued)****Sensitivity analysis**

If the London Inter-Bank Offered Rates for three-month sterling deposits had been 200 basis points higher or lower, the impact on the consolidated net interest income for the year would have been approximately £17,059,308. However, this would have been offset, in all material respects by movements in the fair value of the interest rate swaps.

If the London Inter-Bank Offered Rates for three-month US dollar deposits had been 200 basis points higher or lower, the impact on the consolidated net interest income for the year would have been approximately £1,304,931. However, this would have been offset, in all material respects by movements in the fair value of the currency swap.

If the UK sterling – US dollar exchange rate had been 300 basis points higher or lower, the impact on the consolidated net interest income for the year would have been approximately £836,597. However, this would have been offset, in all material respects by movements in the fair value of the currency swap.

**Capital management**

The group considers its capital to comprise its ordinary share capital and its accumulated retained earnings. There have been no changes in what the group considers to be its capital since the previous year.

The primary objective of the group is to act as a special purpose vehicle and monitor the cashflows of its acquired mortgage loans and ensure the obligations to the noteholders are met. In order to achieve its objectives in this area, the group seeks to maintain a capital structure appropriate to its size and the underlying risks of the entity.

**16 Reconciliation of operating profit to net cash inflow from operating activities**

	2011 £	2010 £
Operating profit	23,930,856	74,770
Interest receivable on bank balances	(162)	(177)
Movement in carrying value of derivative financial instruments	(17,742,385)	(1,503,882)
Foreign exchange (gain)/loss	(3,423,624)	5,066,190
Other finance income	(2,889,837)	(2,757,474)
Increase in debtors	(13,011)	(147,019)
Increase/(decrease) in creditors	138,994	(730,754)
	<hr/>	<hr/>
Net cash inflow from operating activities	831	1,654
	<hr/>	<hr/>

**ELOC 26 PECO HOLDER LIMITED**

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**Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)****17 Reconciliation of net cash flow to movement in net debt**

	2011 £	2010 £
Increase in cash for the year	267	1,086
Change in net debt resulting from cash flows	267	1,086
Net debt brought forward	(611,344,227)	(606,279,123)
Foreign exchange adjustment	3,423,624	(5,066,190)
Net debt carried forward	<u>(607,920,336)</u>	<u>(611,344,227)</u>

**18 Analysis of changes in net debt**

	At 1 July 2010 £	Cash flow £	Other changes £	At 30 June 2011 £
Cash at bank	8,888	267	-	9,155
Debt due after one year	(611,353,115)	-	3,423,624	(607,929,491)
Total	<u>(611,344,227)</u>	<u>267</u>	<u>3,423,624</u>	<u>(607,920,336)</u>

**19 Cash flows in respect of financial instruments**

	2011 £	2010 £
Interest received on mortgage loans	34,399,865	34,442,521
Interest paid on the Notes	(5,576,009)	(10,440,672)
Cash paid on swap contracts	<u>(24,598,513)</u>	<u>(23,628,580)</u>

The financial statements include fair value and amortised cost adjustments that do not reflect the cash flows of the company. This note is intended to provide additional information about the cashflows of the business in respect of its mortgage loan assets, loan note financing and derivative financial instruments.

## **ELOC 26 PECO HOLDER LIMITED**

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**Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)**

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### **20 Related party transactions**

During the year under review fees of £14,605 (2010 £14,175) were payable to Structured Finance Management Limited in respect of corporate services provided to the company, which included the provision of directors. At 30 June 2011 corporate services fees of £nil (2010 £nil) were accrued.

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

### **21 Controlling party**

The entire share capital of the company is held by SFM Corporate Services Limited, a company incorporated in Great Britain and registered in England and Wales, holding the shares on a discretionary trust basis on behalf of the European Loan Conduit No. 26 Securitisation Trust for the benefit of certain charities.