

DECO 12–UK 4 HOLDING LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

THURSDAY



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DECO 12–UK 4 HOLDING LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS	PAGES
Company information	1
Directors' report	2 - 4
Directors' responsibilities statement	5
Independent auditor's report	6
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Company statement of financial position	9
Consolidated statement of changes in equity	10
Company statement of changes in equity	10
Consolidated statement of cash flows	11
Company statement of cash flows	12
Notes to the financial statements	13 - 28

DECO 12–UK 4 HOLDING LIMITED

COMPANY INFORMATION

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

DECO 12–UK 4 HOLDING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in presenting their report and the financial statements of the Group, which comprise the results of the Company and its subsidiary, Deco 12 – UK 4 Plc, for the year ended 31 December 2011

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 floating rate 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 3.59% (2010: 2.44%). At the year end, the Group had net liabilities of £78,284,915 (2010: £53,048,094) primarily as a result of the fair value liability on the derivative financial instruments totalling £66,897,417 (2010: £52,340,643) and cumulative impairments on the mortgage loans of £11,482,252 (2010: £795,250)

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 loss for the year after tax amounted to £25,236,820 (2010: £14,440,410) after the loss on the financial derivative instrument of £14,556,774 (2010: £14,443,661) and the impairment to loans of £10,687,002 (2010: £nil). The directors have not recommended a dividend (2010: £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, interest-bearing loan notes and various receivables and payables that arise directly from its operations. The main purpose of the interest bearing 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

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

DECO 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

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 (2010: Tesco £347,400,000). At 31 December 2011, the total amount outstanding on the mortgage loans was £402,078,580 (2010: £625,369,283). The mortgage loan portfolio consists of 8 loans secured over 35 properties (2010: 10 loans secured over 41 properties).

Refinancing risk

The ability of a borrower to make timely payment of principal due on any loan on the relevant loan maturity date may be dependent upon that borrower's ability to refinance the loan. In the event a borrower cannot refinance before or at the loan maturity date, repayment may be delayed, and in some circumstances the collateral, which 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 Group would be unable to repay certain classes of the loan notes in full.

In the event of the loan notes not being able to be repaid, the loan notes would be written down starting from the lowest class of note, F, to the highest class of note, A1.

Impairment

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

The Industrial Realisation Loan, with a principal balance outstanding at year-end of £2,072,300, was due to be repaid on 20 January 2012. As a result of the non-payment, the loan was transferred to Hatfield Philips, the Special Servicer, on 20 January 2012. A valuation was called by the Special Servicer on 3 February 2012 and the underlying property collateral was valued at £1,250,000. An impairment charge of £822,300 (2010: nil) was recorded against this loan, recognising the difference between the market valuation of the collateral and the loan outstanding.

The Quattro Syndicate Loan, with a principal balance outstanding at year-end of £7,895,250, was due to be repaid on 20 October 2009. As a result of the non-payment, the loan was transferred to Hatfield Philips as Special Servicer on 5 December 2009. An impairment charge of £795,250 was recognised in 2009, representing the difference between the market valuation of the underlying property collateral in December 2009 and the loan outstanding. Using property indices, the directors have estimated that the collateral value has increased as at year-end and, accordingly, have reduced the impairment provision by £396,016.

Impairments charged in the year against other loans were Borehamwood Investments Limited £5,215,000 (2010: £nil), LMM Overseas Investments Limited £4,817,775 (2010: £nil) and Chesterton Commercial £227,944 (2010: £nil).

Borehamwood Investments and LLM Overseas Investments Limited were impaired due to breaches of their ICR covenant. Chesterton Commercial was impaired as the borrower was unable to repay the loan in full at maturity in April 2012. For all three loans, the impairment represents the estimated difference between the market valuation of the collateral and the loan outstanding.

DECO 12-UK 4 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

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 3 February 2012 to expire on 6 March 2013. The directors expect this facility to be renewed annually. Further discussion of the Group's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 15.

Basis of preparation - going concern

The loan notes issued by the Group are non-recourse and their terms are such that amounts due are only payable to the extent that there are sufficient receipts from the Group's assets. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

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

Mr M H Filer

Mr J Traynor

	Ordinary shares	Ordinary shares
	At 31 December 2011	At 31 December 2010

Wilmington Trust SP Services (London) Limited	<u>1</u>	<u>1</u>
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Wilmington Trust SP Services (London) Limited holds 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 period.

AUDITOR

A resolution to re-appoint Deloitte LLP as auditor for the ensuing year will be proposed at the annual general meeting.

STATEMENT AS TO 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



Mignon Clarke for and on behalf of

WILMINGTON TRUST SP SERVICES (LONDON) LIMITED

Director

7 August 2012

DECO 12–UK 4 HOLDING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2011

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 and parent company financial statements (the "financial statements") of Deco 12-UK 4 Holding Limited for the year ended 31 December 2011 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of changes in equity, the Consolidated and Company statements of cash flows, and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as 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 auditors' 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 (APB'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 2011 and of the Group's loss 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.

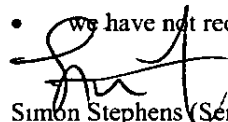
Opinion on other matter prescribed by the Companies Act 2006

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 (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
7 August 2012

DECO 12-UK 4 HOLDING LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2011**

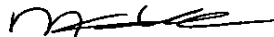
Continuing operations	Notes	2011 £	2010 £
Interest income	2	24,928,471	27,909,857
Interest expense	3	<u>(24,073,388)</u>	<u>(26,908,882)</u>
Net interest income		855,083	1,000,975
Fair value loss on derivative financial instruments		(14,556,774)	(14,443,661)
Impairment on mortgage loans	8	<u>(10,687,002)</u>	-
Operating expenses	4	<u>(846,702)</u>	<u>(996,701)</u>
Loss before tax for the year		(25,235,395)	(14,439,387)
Income tax charge	5	<u>(1,425)</u>	<u>(1,023)</u>
Total loss after tax and comprehensive loss for the year attributable to equity holders	11	<u>(25,236,820)</u>	<u>(14,440,410)</u>

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

DECO 12–UK 4 HOLDING LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2011**

	Notes	2011 £	2010 £
Assets			
Non-current assets			
Mortgage loans	8	<u>373,842,708</u>	<u>616,483,642</u>
Current assets			
Mortgage loan	8	16,753,620	8,090,392
Trade and other receivables	9	3,894,486	4,817,007
Cash and cash equivalents	10	<u>180,881</u>	<u>915,770</u>
		<u>20,828,987</u>	<u>13,823,169</u>
Total assets		<u>394,671,695</u>	<u>630,306,811</u>
Equity			
Share capital	11	1	1
Retained loss	11	<u>(78,287,456)</u>	<u>(53,050,635)</u>
Total shareholders' deficit		<u>(78,287,455)</u>	<u>(53,050,634)</u>
Non-current liabilities			
Interest-bearing loans	12	<u>385,324,960</u>	<u>618,118,724</u>
Total non-current liabilities		<u>385,324,960</u>	<u>618,118,724</u>
Current liabilities			
Interest-bearing loans	12	16,753,620	8,090,392
Accrued interest	12	872,748	1,056,480
Trade and other payables	13	3,109,332	3,750,308
Current tax liability		1,073	898
Derivative financial instruments	15	<u>66,897,417</u>	<u>52,340,643</u>
Total current liabilities		<u>87,634,190</u>	<u>65,238,721</u>
Total liabilities		<u>472,959,150</u>	<u>683,357,445</u>
Total equity and liabilities		<u>394,671,695</u>	<u>630,306,811</u>

These financial statements of Deco 12 – UK 4 Holding Limited, Company registration 06105060, on pages 7 to 28 were approved and authorised for issue by the directors on 7 August 2012 and are signed on their behalf by



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

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

DECO 12–UK 4 HOLDING LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2011**

	Notes	2011 £	2010 £
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> 1	<u>1</u> 1
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 7 to 28 were approved by the directors and authorised for issue on 7 August 2012 and are signed on their behalf by


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

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

DECO 12-UK 4 HOLDING LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2011**

	Share capital £	Retained earnings £	Total £
Balance at 1 January 2010	1	(38,610,225)	(38,610,224)
Loss for the year	-	(14,440,410)	(14,440,410)
Other comprehensive loss for the year	-	-	-
Total comprehensive loss for the year	-	<u>(53,050,635)</u>	<u>(53,050,634)</u>
Balance at 31 December 2010	1	(53,050,635)	(53,050,634)
Loss for the year	-	(25,236,820)	(25,236,820)
Other comprehensive loss for the year	-	-	-
Total comprehensive loss for the year	-	<u>(78,287,455)</u>	<u>(78,287,454)</u>
Balance at 31 December 2011	1	<u>(78,287,455)</u>	<u>(78,287,454)</u>

COMPANY STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER 2011**

	Share Capital £	Retained earnings £	Total £
Balance at 1 January 2010	1	9,960	9,960
Loss for the year	-	-	-
Other comprehensive loss for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 31 December 2010	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 2011	1	<u>9,960</u>	<u>9,961</u>

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

DECO 12–UK 4 HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £	2010 £
Operating activities			
(Loss) before tax for the year		(25,235,395)	(14,439,387)
<i>Adjustments for</i>			
Fair value movement on derivative financial instrument		14,556,774	14,443,661
Impairment to mortgage loans		10,687,002	-
Bank interest receivable	2	(5,889)	(1,484)
Decrease in trade and other receivables	7	922,520	1,853,401
Decrease in trade and other payables	10, 11	(824,708)	(1,855,657)
Net cash from operating activities		100,304	534
 Tax paid		 (1,250)	 (1,693)
		99,054	(1,159)
 Investing activities			
Repayments of mortgage loans		223,290,704	45,468,650
Bank interest received		5,889	1,483
 Net cash from investing activities		 223,296,593	 45,470,133
 Financing activities			
Repayments of loan notes		(224,130,536)	(45,468,650)
 Net cash used in financing activities		 (224,130,536)	 (45,468,650)
Net (decrease) in cash and cash equivalents		(734,889)	324
 Cash and cash equivalents at beginning of year		 915,770	 915,446
 Cash and cash equivalents at 31 December 2011	8	 180,881	 915,770

Actual cash received and paid as interest income and interest expense during the year was £25,845,555 and £5,756,505 respectively

As explained in the accounting policies note on page 15, the cash is not freely available to be used

DECO 12–UK 4 HOLDING LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £	2010 £
Cash flows from operating activities			
Loss before tax for the period		-	-
<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/period		1	1
Cash and cash equivalents at 31 December 2011	10	1	1

(As explained in the accounting policies note on page 15, the cash is not freely available to be used)

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 EU as they apply to the financial statements of the Group and the Company for the year ended 31 December 2011

The accounting policies set out below have been applied in respect of the year ended 31 December 2011 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 (2010: £nil)

Basis of preparation - going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Directors' Report on page 2. 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 loan notes issued by the Group are non-recourse and their terms are such that amounts due are only payable to the extent that there are sufficient receipts from the Group's assets. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Basis of consolidation

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

- Subsidiaries

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

- Transactions eliminated on consolidation

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

DECO 12–UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

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

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In particular for the fair value of derivatives (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 initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method.

Impairment

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

Derecognition of financial assets

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

Deferred consideration

A deferred consideration charge/(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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Derivative financial instruments and hedging activities

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 at fair value through profit or loss and are classified under held for trading category of IAS 39 Financial Instruments: Recognition and Measurement.

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the balance sheet. 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.

Interest-bearing loans

Interest-bearing loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement 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 income statement. 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.

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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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)

IFRS 1(amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time adopters
IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
IAS 12 (amended)	Deferred tax Recovery of Underlying Assets
IFRS 10	Consolidated Financial Statements
IFRS 9	Financial Instruments
IFRS 11	Joint Arrangements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The directors are currently considering the potential impact of the adoption of IFRS 9 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 2011

2. INTEREST INCOME

	2011 Group £	2010 Group £
Income from mortgage loans	24,922,582	27,908,373
Bank interest received	<u>5,889</u>	<u>1,484</u>
	<u>24,928,471</u>	<u>27,909,857</u>

3. INTEREST EXPENSE

	2011 Group £	2010 Group £
Net swap interest payable	17,372,471	19,479,505
Interest on loan notes	5,572,772	5,547,692
Deferred consideration	<u>1,128,145</u>	<u>1,881,685</u>
	<u>24,073,388</u>	<u>26,908,882</u>

4. OPERATING EXPENSES

	2011 Group £	2010 Group £
Administration and cash management fees	800,190	962,640
Audit fees for audit of the Company's financial statements	2,400	2,350
Audit fees for audit of the subsidiary's financial statements	25,440	25,146
Fee paid to auditor for tax consultancy services	8,261	4,625
Corporate services fees	<u>10,411</u>	<u>1,940</u>
	<u>846,702</u>	<u>996,701</u>

The directors received no emoluments for their services as directors to the Group during the year (2010 nil). The directors had no any material interest in any contract of significance in relation to the business of the Group. The Group did not have any employees in the current year (2010 nil).

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.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

5. INCOME TAX CHARGE (CONTINUED)

	2011 Group £
Current tax:	
Corporation tax charge for the year at a rate of 20 25%	1,697
Over provision of the prior year charge	<u>(272)</u>
Total income tax credit in income statement	<u>1,425</u>

	2011 Group £
Reconciliation of total tax charge	
The tax assessed for the period 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%	<u>(5,110,168)</u>
Permanent differences relating to application of Taxation of Securitisation Companies Regulations 2006	5,111,865
Over provision of the prior period charge	<u>(272)</u>
Total tax credit reported in the income statement	<u>1,425</u>

	2010 Group £
Current tax	
Corporation tax charge for the year at a rate of 20 25%	898
Overprovision of the prior year charge	<u>125</u>
	<u>1023</u>

	2010 Group £
Reconciliation of total tax charge	
The tax assessed for the period is at the standard rate of corporation tax in the UK of 21% loss before tax	
	<u>(14,439,387)</u>
Loss before tax multiplied by the standard rate of corporation tax in the UK of 21%	<u>(3,032,271)</u>
Permanent differences relating to application of Taxation of Securitisation Companies Regulations 2006	3,033,169
Under provision of the prior period charge	<u>125</u>
Total tax credit reported in the income statement	<u>1,023</u>

6. INVESTMENT IN SUBSIDIARY

	2011 £	2010 £
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 balance sheet.

DECO 12-UK 4 HOLDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

6. INVESTMENT IN SUBSIDIARY (CONTINUED)

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

7. RESULTS FOR THE FINANCIAL PERIOD

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 (2010: £nil).

8. MORTGAGE LOANS

Group

	2011	2010
	£	£
At 1 January 2011	624,574,034	670,042,684
Impairment provision	(10,687,002)	-
Redemptions	<u>(223,290,704)</u>	<u>(45,468,650)</u>
At 31 December 2011	<u>390,596,328</u>	<u>624,574,034</u>
The balance can be analysed as follows		
Current assets	16,753,620	8,090,392
Non-current assets	<u>373,842,708</u>	<u>616,483,642</u>
	<u>390,596,328</u>	<u>624,574,034</u>

The mortgage loans are classified as "loans and receivables". The mortgage loans are due for repayment between January 2012 and January 2017. At 31 December 2011, the fixed rate of interest on the mortgage loans ranged from 2.22% to 6.60% (2010: 2.19% 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 balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

The Industrial Realisation Loan, with a principal balance outstanding at year-end of £2,072,300, was due to be repaid on 20 January 2012. As a result of the non-payment, the loan was transferred to Hatfield Philips, the Special Servicer, on 20 January 2012. A valuation was called by the Special Servicer on 3 February 2012 and the underlying property collateral was valued at £1,250,000. An impairment charge of £822,300 (2010: nil) was recorded against this loan, recognising the difference between the market valuation of the collateral and the loan outstanding.

The Quattro Syndicate Loan, with a principal balance outstanding at year-end of £7,895,250, was due to be repaid on 20 October 2009. As a result of the non-payment, the loan was transferred to Hatfield Philips as Special Servicer on 5 December 2009. An impairment charge of £795,250 was recognised in 2009, representing the difference between the market valuation of the underlying property collateral in December 2009 and the loan outstanding. Using property indices, the directors have estimated that the collateral value has increased as at year-end and, accordingly, have reduced the impairment provision by £396,016.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. MORTGAGE LOANS (CONTINUED)

Impairments charged in the year against other loans were Borehamwood investments Limited £5,215,000 (2010 £nil), LMM Overseas Investments Limited £4,817,775 (2010 £nil) and Chesterton Commercial £227,944 (2010 £nil)

Borehamwood investments and LLM Overseas Investments Limited were impaired due to breaches of their ICR covenant Chesterton Commercial was impaired as the borrower was unable to repay the loan in full at maturity in April 2012 For all three loans, the impairment represents the estimated difference between the market valuation of the collateral and the loan outstanding

9 TRADE AND OTHER RECEIVABLES

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Other debtors	-	-	-	-
Prepayments and accrued income	<u>3,894,486</u>	<u>-</u>	<u>4,817,007</u>	<u>-</u>
	<u>3,894,486</u>	<u>-</u>	<u>4,817,007</u>	<u>-</u>

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 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Cash and cash equivalents	<u>180,881</u>	<u>1</u>	<u>915,770</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 share capital	Retained loss £	Total £
At 1 January 2011	1	(53,050,635)	(53,050,634)
Loss for the year	-	<u>(25,236,820)</u>	<u>(25,236,820)</u>
Balance at 31 December 2011	<u>1</u>	<u>(78,287,455)</u>	<u>(78,287,454)</u>
Company	Issued share capital	Retained profit £	Total £
At 1 January 2011	1	9,960	9,961
Reserves	-	<u>-</u>	<u>-</u>
Balance at 31 December 2011	<u>1</u>	<u>9,960</u>	<u>9,961</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

11. TOTAL EQUITY (CONTINUED)

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

12. INTEREST-BEARING LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 14.

	Group 2011 £	Company 2011 £
At 1 January 2011	626,209,116	-
Redemptions	(224,130,536)	-
	<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>
	Group 2010 £	Company 2010 £
At 1 January 2010	671,677,766	-
Redemptions	(45,468,650)	-
	<u>626,209,116</u>	<u>-</u>
Non-current liabilities		
Loan notes	<u>618,118,724</u>	<u>-</u>
Current liabilities		
Loan notes	8,090,392	-
Interest payable on loan notes	<u>1,056,480</u>	<u>-</u>
	<u>9,146,872</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 interest bearing loans are secured by way of fixed and floating charges over the Group'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 Company. The facility is in place to allow the Company to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loans. At the

DECO 12–UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

12 INTEREST-BEARING LOANS (CONTINUED)

balance sheet date, the limit on this facility was £41,000,000 (2010 £41,000,000) A fee is charged on the undrawn balance, currently set out at 0.15% per annum. This fee would increase on any drawn balance. No amounts have been drawn under the facility since inception. The liquidity facility is secured by way of fixed and floating charges over the Company's assets including the mortgage loans and loan notes. Interest-bearing loans and borrowings are repayable as follows:

Year ended 31 December	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
2011	£	£	£	£	£
Liabilities					
Floating rate notes due 2020	402,078,580	16,753,620	111,670	26,705,789	358,507,501
Interest payable	872,748	872,748	-	-	-
	<u>402,951,328</u>	<u>17,626,368</u>	<u>111,670</u>	<u>26,833,789</u>	<u>365,881,556</u>
 Year ended 31 December					
2010	£	£	£	£	£
Liabilities					
Floating rate notes due 2020	626,209,116	8,090,392	8,325,141	250,490,250	359,303,333
Interest payable	1,056,480	1,056,480	-	-	-
	<u>627,265,596</u>	<u>9,146,872</u>	<u>8,325,141</u>	<u>250,490,250</u>	<u>359,303,333</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 balance sheet date £206,219,749 (2010 £428,372,778) in respect of the Class A1 notes was outstanding, £113,823,244 (2010 £114,972,471) in respect of Class A2 notes, £34,641,857 (2010 £34,991,622) in respect of Class B notes, £27,713,486 (2010 £27,993,297) in respect of Class C notes, £15,836,277 (2010 £15,996,170) in respect of the Class D notes, £2,721,860 (2010 £2,749,342) in respect of Class E notes and £1,122,106 (2010 £1,133,436) 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 2011	<u>4,233,764</u>	<u>15,630,321</u>	<u>3,763,315</u>	<u>23,627,400</u>
31 December 2010	<u>5,526,080</u>	<u>17,654,288</u>	<u>3,349,780</u>	<u>26,530,148</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. OTHER LIABILITIES

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Other creditors	-	2,541	-	2,541
Accruals and deferred income	<u>3,109,332</u>	<u>-</u>	<u>3,750,308</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 directors consider that the carrying amount of trade and other payables approximates to their fair value

14. PRINCIPAL RISKS AND UNCERTAINTIES

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 period under review, the Group's policy that no trading in financial instruments is undertaken.

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

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 Notes and the mortgage loans. This is hedged using an interest rate 'basis' swap that is taken out on inception of the securitisation.

After taking into consideration the Group's derivative instruments, the administered interest rate nature of the Group's mortgage loans, the regular re-pricing of the Group's floating rate notes, together with the nature of the Group's other assets and liabilities, the directors do not believe that the Group has any significant interest rate re-pricing exposure.

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 balance sheet amount. The largest single exposure to credit risk is the Tesco mortgage loan totalling £347,400,000 (2010, £347,400,000). The directors consider that the Group's beneficial interest in the commercial properties granted as security will be sufficient to recover the carrying value of these loans.

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

	31 December 2011 £	31 December 2010 £
Neither past due nor impaired	359,813,900	617,474,033
Past due but not impaired	-	-
Impaired	<u>42,264,680</u>	<u>7,895,250</u>
	402,078,580	625,369,283
Less allowance for impairment	<u>(11,482,252)</u>	<u>(795,250)</u>
	<u>390,596,328</u>	<u>624,574,033</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

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 collaterals 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 the Originator as part of the deferred consideration and will not form part of available funds. The directors do not believe that the Group has any significant prepayment risk.

Liquidity risk

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

At 31 December 2011 this facility was not used, and has not been used during the year. The liquidity facility for £41,000,000 was renewed on 3 February 2012 to expire on 6 March 2013. The directors expect this facility to be renewed annually.

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 loan notes. In accordance with the respective Prospectus for each of the 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 floating rate notes was estimated based on the floating rate amounts as at 31 December 2011.

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 2011 and 2010 were 108.40% and 106.10% respectively.

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Fair values

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

	Notes	Carrying amount 2011 £	Fair value 2011 £	Carrying amount 2010 £	Fair value 2010 £
Group					
Mortgage loans	8	390,596,328	355,409,648	624,574,034	553,377,098
Trade and other receivables	9	3,892,947	3,892,547	4,817,007	4,817,007
Cash and cash equivalents	10	<u>180,881</u>	<u>180,881</u>	<u>915,770</u>	<u>915,770</u>
Total assets		<u>394,670,156</u>	<u>359,483,076</u>	<u>630,306,811</u>	<u>559,109,875</u>
Interest-bearing loans	12	(402,078,580)	(288,512,231)	(626,209,116)	(502,348,126)
Interest payable	12	(872,748)	(872,748)	(1,056,480)	(1,056,480)
Derivative financial instruments	15	(66,897,417)	(66,897,417)	(52,340,643)	(52,340,643)
Trade and other payables	13	(3,109,332)	(3,109,332)	(3,750,308)	(3,750,308)
Current tax liability		<u>(1,073)</u>	<u>(1,073)</u>	<u>(898)</u>	<u>(898)</u>
Total liabilities		<u>(472,959,150)</u>	<u>(359,392,801)</u>	<u>(683,357,445)</u>	<u>(559,496,455)</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

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

As at 31 December 2011

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	<u>66,897,417</u>	<u>-</u>	<u>66,897,417</u>	<u>-</u>

As at 31 December 2010

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	<u>52,340,643</u>	<u>-</u>	<u>52,340,643</u>	<u>-</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

The only financial instruments held at fair value on the balance sheet are derivatives. The derivatives all fall within the level 2 fair value hierarchy.

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.

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 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>400,857,046</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>57,148,329</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>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Group At 31 December 2010	Weighted average effective interest rate %	1 to 3 months £	Non- interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	4,819,547	-	4,819,547
Mortgage loans	4.431%	-	-	624,574,034	624,574,034
Cash and cash equivalents	-	<u>915,770</u>	<u>-</u>	<u>-</u>	<u>915,770</u>
Total assets		<u>915,770</u>	<u>4,819,547</u>	<u>624,574,034</u>	<u>630,309,351</u>
Liabilities					
Accruals and tax liabilities	-	-	4,807,686	-	4,807,686
Derivative financial instruments	-	-	52,340,643	-	52,340,643
Interest bearing loans	0.884%	<u>626,209,116</u>	<u>-</u>	<u>-</u>	<u>626,209,116</u>
Total liabilities		<u>626,209,116</u>	<u>57,148,329</u>	<u>-</u>	<u>683,357,445</u>

Company At 31 December 2010	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 balance sheet date were

	Group 2011 £	Group 2010 £
Interest rate swaps fair value at start of year	(52,340,643)	(37,896,982)
Change in fair value	<u>(14,556,774)</u>	<u>(14,443,661)</u>
Interest rate swaps fair value at end of year	<u>(66,897,417)</u>	<u>(52,340,643)</u>

DECO 12-UK 4 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional principal amount of all the outstanding interest rate swap contracts at 31 December 2011 was £803,306,539 (2010, £1,206,234,537) The Company pays a fixed rate ranging from 0.974% to 5.39% (2010 0.7372% to 5.14%) and receives 3-month LIBOR (2010 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

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. Moreover, the management believes fair value of this embedded derivative would approximate a similar hybrid instrument which 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 as well.

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

	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years
As at 31 December 2011	£	£	£	£	£
	66,897,417	69,812,417	844,924	11,385,303	57,582,189
	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 2010	£	£	£	£	£
	52,340,643	68,005,353	933,481	12,371,245	54,700,627

16. RELATED PARTY TRANSACTIONS

The Group is a special-purpose company controlled by its Board of directors, which comprises three directors: Wilmington Trust SP Services (London) Limited, Mr M H Filer and Mr J Traynor. Mr M H Filer, a director of the Company, is also a director of Wilmington Trust SP Services (London) Limited. The Group pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The fees payable to these directors for their services for the year ended 31 December 2011 amounted to £10,411 (2010: £6,140) including irrecoverable VAT.

17. ULTIMATE PARENT UNDERTAKING

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

Wilmington Trust SP Services (London) Limited holds one share in Deco 12-UK 4 Holding Limited under a declaration of trust for charitable purposes. The registered office of Wilmington Trust SP Services is given on page 1.

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