

Company Registration Number 5479512

**DECO SERIES 2005—UK CONDUIT 1 PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

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DECO SERIES 2005–UK CONDUIT 1 PLC

FOR THE YEAR ENDED 31 MARCH 2013

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DECO SERIES 2005–UK CONDUIT 1 PLC

COMPANY INFORMATION

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

DECO SERIES 2005–UK CONDUIT 1 PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2013

The directors present their report and the financial statements of Deco Series 2005-UK Conduit 1 PLC (the "Company" for the year ended 31 March 2013

PRINCIPAL ACTIVITIES

The Company is a special purpose vehicle established in order to issue loan notes due July 2017 ("the loan notes"), to acquire the beneficial interest in a mortgage portfolio ("the mortgage loans") from Deutsche Bank AG, London Branch, to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 8 July 2005. On 12 July 2005, the Company issued £236,056,634 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 ended 31 March 2013, the Company achieved a net interest margin (net interest income divided by interest income) of 13.93% (2012: 3.42%) due to the reduction of the deferred consideration expense to the class X note holders, driven by the increase in servicing costs in the year. At the year end, the Company had net liabilities of £8,125,598 (2012: net liabilities of £2,760,055) primarily as a result of the fair value liability on the derivative financial instruments totalling £230,737 (2012: £650,414) and the cumulative impairment on the mortgage loans of £7,870,858 (2012: £2,116,691).

RESULTS AND DIVIDENDS

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

The Company's loss for the year after tax amounted to £5,365,543 (2012: profit of £1,941,687) after the gain on the financial derivative instrument of £419,677 (2012: £709,605) and the impairment to loans of £5,754,167 (2012: reversal of £1,231,839). The directors have not recommended a dividend for the year under review (2012: £nil).

CREDITOR PAYMENT POLICY

The Company'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 Company does not follow any other code or standard on payment practice.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

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

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

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

The Board reviews and agrees policies for managing risks arising on the Company's financial instruments and they are summarised below.

Currency risk

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

DECO SERIES 2005—UK CONDUIT 1 PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company 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 Company uses interest rate swaps to mitigate any residual interest rate risk.

Credit risk

The principal credit risk to the Company 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 the mortgage loans to CPI Retail Active Management and Commercial and Warehouse Properties with gross balances of £28,501,092 (2012 £30,022,485) and £9,853,242 (2012 £10,046,746) respectively, which together constitute approximately 72% of the total loan portfolio. At 31 March 2013, the carrying amount of mortgages outstanding was £53,881,470 (2012 £59,712,821). The mortgage loan portfolio consists of 6 loans (2012 8 loans) secured over 12 properties (2012 14 properties).

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset. The impairment represents the estimated difference between the value of the collateral and the loan outstanding.

Impairments charged during the year on mortgage loans were Heathvale Estates Limited £1,296,845 (2012 £nil), Sandfile Limited £560,121 (2012 £nil) and CPI Retail Active Management Limited £3,897,201 (2012 £nil).

As at 31 March 2013, no impairment was charged against Commercial and Warehouse Properties, Holaw (420) Limited and I/S Scandinavian Property Investment V respectively.

The Heathvale Estates loan defaulted on its maturity date in July 2012 and was subsequently transferred to the Special Servicer (Hatfield Philips International). The underlying property collateral was valued in at £4,895,000. Accordingly, an impairment of £1,296,845 has been booked to take account of changes in the estimated market value of the underlying properties at year-end.

The Sandfile loan defaulted on its maturity date of 20 April 2012 and has been transferred to the special servicer. The most recent external market valuation of the underlying property, dated May 2012, of £2,500,000 is estimated to be below the carrying value and therefore an impairment of £560,121 was provided as at 31 March 2013. Sandfile Limited entered into compulsory liquidation following the making of a winding up order on 3 September 2012, which was submitted by HMRC in regards to unpaid VAT and Corporation Tax. An Official Receiver was appointed in September 2012.

The Commercial and Warehouse Properties Ltd loan defaulted on its maturity date on 20 July 2012 and subsequently was transferred into Special Servicing with Hatfield Philips. The most recent external market valuation of the underlying property, dated September 2012, of £13,750,000 is estimated to be above the carrying value and therefore, no impairment was provided as at 31 March 2013.

The Holaw (420) Limited loan defaulted on its maturity date on 20 October 2011 and was subsequently transferred to the Special Servicer (Hatfield Philips International) on 21 October 2011. The underlying property collateral was last valued externally in January 2012. At year-end, the market value of the underlying property is estimated to be above the carrying value and therefore, no impairment was provided as at 31 March 2013.

DECO SERIES 2005–UK CONDUIT 1 PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

The CPI Retail loan defaulted on its maturity date on 20 October 2010 and was subsequently transferred into Special Servicing. The underlying property collateral was valued in May 2013 at £24,700,000. Accordingly, an impairment of £3,897,201 has been booked to take account of changes in the estimated market value of the underlying properties at year-end.

Refinancing risk

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

Liquidity risk

A facility provided by Credit Agricole Corporate and Investment Bank (formerly Calyon) has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. The liquidity facility for £5,000,000 was renewed from 5 July 2013 to expire on 1 July 2014. The directors expect this facility to be renewed annually.

As at 31 March 2013, an amount of £15,755 (2012: £nil) of liquidity facility was drawn. The liquidity facility was drawn to accommodate the interest shortfall that arose on the defaulted interest payments on mortgage loans during the year. The liquidity drawn was subsequently repaid in April 2013 in accordance with the terms of the liquidity facility agreement, which stipulates that the drawn amount should be repaid on the next distribution date. Further discussion of the Company's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 12.

Going concern

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

Due to the limited recourse nature of the loan notes, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

In addition, note 12 to the financial statements includes the Company'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.

DIRECTORS

The directors who served the Company during the year and to the date of this report were as follows:

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

AUDITOR

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

DECO SERIES 2005—UK CONDUIT 1 PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013


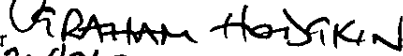
STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each of the directors has taken all 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Signed by order of the directors


for and on behalf of
Director 
Date 24/9/13

DECO SERIES 2005–UK CONDUIT 1 PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2013

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO SERIES 2005-UK CONDUIT 1 PLC

We have audited the financial statements of Deco Series 2005-UK Conduit 1 PLC for the year ended 31 March 2013 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 16. 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.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 Company's affairs as at 31 March 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

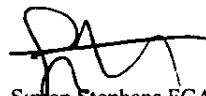
Opinion on other matter prescribed by the Companies Act 2006

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



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

Date 24 Sept 2013

**DECO SERIES 2005—UK CONDUIT 1 PLC
STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 MARCH 2013

Continuing operations	Notes	2013 £	2012 £
Interest income	2	1,387,142	2,230,482
Interest expense	3	<u>(1,193,935)</u>	<u>(2,154,092)</u>
Net interest income		193,207	76,390
 (Provision)/reversal of impairment against commercial mortgage loans	 6	 (5,754,167)	 1,231,839
Fair value movement on derivative financial instruments		419,677	709,605
Operating expenses	4	<u>(224,232)</u>	<u>(76,166)</u>
(Loss)/profit before tax for the year		(5,365,515)	1,941,668
 Income tax (charge)/credit	 5	 <u>(28)</u>	 <u>19</u>
Total (loss)/profit after tax and comprehensive (loss)/profit for the year		<u>(5,365,543)</u>	<u>1,941,687</u>

The notes on pages 12 to 25 form part of these financial statements



DECO SERIES 2005-UK CONDUIT 1 PLC

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Notes	2013 £	2012 £
Assets			
Non-current assets			
Mortgage loans	6	2,256,707	2,294,752
Current assets			
Mortgage loans	6	45,457,634	57,418,069
Trade and other receivables	7	296,592	412,272
Cash and cash equivalents	8	<u>69,243</u>	<u>41,287</u>
		<u>45,823,469</u>	<u>57,871,628</u>
Total assets		<u>48,080,176</u>	<u>60,166,380</u>
Equity			
Share capital	9	12,502	12,502
Retained loss		<u>(8,138,100)</u>	<u>(2,772,557)</u>
Total shareholders' deficit		<u>(8,125,598)</u>	<u>(2,760,055)</u>
Liabilities			
Non-current liabilities			
Loan notes	10	<u>10,127,566</u>	<u>4,411,444</u>
Total non-current liabilities		<u>10,127,566</u>	<u>4,411,144</u>
Current liabilities			
Loan notes	10	45,457,634	57,418,069
Interest payable on loan notes	10	249,374	325,683
Trade and other payables	11	139,556	120,825
Current tax liability		907	-
Derivative financial instruments	13	<u>230,737</u>	<u>650,414</u>
Total current liabilities		<u>45,078,208</u>	<u>58,514,991</u>
Total liabilities		<u>56,205,774</u>	<u>62,926,435</u>
Total equity and liabilities		<u>48,080,176</u>	<u>60,166,380</u>

The financial statements of Deco Series 2005-UK Conduit 1 plc, registration number 5479512, were approved and authorised for issue by the board of directors on 24/09/2013 and they were signed on their behalf by


for and on behalf of
Director 

The notes on pages 12 to 25 form part of these financial statements

DECO SERIES 2005–UK CONDUIT 1 PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2013

	Share capital £	Retained loss £	Total equity £
Balance at 1 April 2011	12,502	(4,714,244)	(4,701,742)
Profit for the year	-	1,941,687	1,941,687
Other comprehensive income	-	-	-
Balance at 31 March 2012	<u>12,502</u>	<u>(2,772,557)</u>	<u>(2,760,055)</u>
	Share capital £	Retained loss £	Total equity £
Balance at 1 April 2012	12,502	(2,772,557)	(2,760,055)
Loss for the year	-	(5,365,543)	(5,365,543)
Other comprehensive income	-	-	-
Balance at 31 March 2013	<u>12,502</u>	<u>(8,138,100)</u>	<u>(8,125,598)</u>

The notes on pages 12 to 25 form part of these financial statements

DECO SERIES 2005–UK CONDUIT 1 PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
(Loss)/Profit before tax for the year		(5,365,515)	1,941,668
<i>Adjustments for</i>			
(Provision)/reversal of impairment against commercial mortgage loans		5,754,167	(1,231,839)
Fair value movement on derivative financial instruments	13	(419,677)	(709,605)
Decrease/(increase) in trade and other receivables	7	91,641	(11,050)
(Decrease)/increase in trade and other payables	10, 11	<u>(73,333)</u>	<u>10,600</u>
Net cash from operating activities		(12,717)	(226)
Tax refunded		<u>24,918</u>	<u>19</u>
		12,201	(207)
Investing activities			
Repayments of mortgage loans	6	<u>6,245,739</u>	<u>4,909,507</u>
Net cash from investing activities		<u>6,245,739</u>	<u>4,909,507</u>
Financing activities			
Repayments of loan notes	10	(6,245,739)	(4,909,507)
Liquidity facility drawn		<u>15,755</u>	<u>-</u>
Net cash used in financing activities		<u>(6,229,984)</u>	<u>(4,909,507)</u>
Net increase/(decrease) in cash and cash equivalents		27,956	(207)
Cash and cash equivalents at beginning of year		<u>41,287</u>	<u>41,494</u>
Cash and cash equivalents at 31 March 2013	8	<u>69,243</u>	<u>41,287</u>

Actual cash received and paid as interest income and interest expense during the year was £1,620,069 (2012 £2,217,598) and £786,476 (2012 £813,190) respectively

As explained in the accounting policies on page 13, the cash is not freely available to be used

The notes on pages 12 to 25 form part of these financial statements

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

1 SIGNIFICANT ACCOUNTING POLICIES

Deco Series 2005-UK Conduit 1 PLC is a Company incorporated in the United Kingdom under the Companies Act 2006 and domiciled in England

Statement of compliance

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

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

Basis of preparation

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

The financial statements are presented in Pound Sterling

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Directors' Report on pages 2 to 5. In addition, note 12 to the financial statements includes the Company'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 Company has net liabilities as a result of impairments on the loan assets. However, the terms of the loan notes are limited recourse and therefore the Company is only obliged to repay the notes to the extent that the Company receives cash from the loan assets. The note holders will therefore ultimately bear the Company's deficits on maturity of the notes

Due to the limited recourse nature of the loan notes, the directors have a reasonable expectation that the Company 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

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 13) and the recoverability of assets (note 6), 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 Company's financial instruments comprise the mortgage loans, cash and liquid resources, derivatives, loan notes and various receivables and payables that arise directly from its operations. The main purpose of the loan notes is to finance the 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

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage loans

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

Impairment

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

Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received

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 Company'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

Deferred consideration

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

Derivative financial instruments and hedging activities

The Company 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 Company does not hold or issue derivative financial instruments for trading purposes. Derivatives are accounted for as held for trading

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the Statement of Financial Position. Subsequent to initial recognition, any changes in fair value of the derivatives held are recognised in the Statement of Comprehensive Income

The fair value of interest rate swaps and basis swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting 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

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan notes

Loan notes are classified as financial liabilities and are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loan notes thereon are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

Embedded derivatives

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

Interest income and expense

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

Value added tax

Value added tax is not recoverable by the Company 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. Income tax expense is calculated based on the retained cash profits of the Company for the year as explained in note 5.

Standards issued but not adopted

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

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

Name of new Standards/amendments	Effective date
IFRS 9 – Financial Instruments	Accounting periods beginning on or after 1 January 2015
IFRS 11 – Joint Arrangements	Accounting periods beginning on or after 1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	Accounting periods beginning on or after 1 January 2013
IFRS 13 – Fair Value Measurement	Accounting periods beginning on or after 1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012) Investment Entities	Accounting periods beginning on or after 1 January 2014
Annual improvements to IFRSs 2009 – 2011 Cycle	Accounting periods beginning on or after 1 January 2013

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not adopted (continued)

Name of new Standards/amendments	Effective date
Amendments to IAS 32 (Dec 2011) Offsetting Financial Assets and Financial Liabilities	Accounting periods beginning on or after 1 January 2014
Amendments to IFRS 7 (Dec 2011) Disclosures – Offsetting Financial Assets and Financial Liabilities	Accounting periods beginning on or after 1 January 2013

The directors are currently considering the potential impact of the adoption of IFRS 9, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining Standards above will have any material impact on the amounts reported in these financial statements

Segmental reporting

The principal asset of the Company 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 Company from those already disclosed in these financial statements

2 INTEREST INCOME

	2013	2012
	£	£
Income from mortgage loans	1,385,079	2,228,629
Amortisation of discount on acquisition of mortgage loan	1,426	1,147
Bank interest received	637	706
	<u>1,387,142</u>	<u>2,230,482</u>

3 INTEREST EXPENSE

	2013	2012
	£	£
Interest on loan notes	710,167	965,756
Amortisation of discount on loan notes	1,426	1,147
Net swap interest payable	335,642	894,782
Deferred consideration	146,700	292,407
	<u>1,193,935</u>	<u>2,154,092</u>

4 OPERATING EXPENSES

	2013	2012
	£	£
Administration and cash management fees	167,764	21,601
Audit fees for the audit of the Company's accounts	31,777	31,200
Fee paid for tax services	8,070	9,360
Corporate services fees	16,621	14,005
	<u>224,232</u>	<u>76,166</u>

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

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

5. INCOME TAX CHARGE/(CREDIT)

The Company 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 pre-enforcement priority of payments as defined in the terms and conditions of the loan notes

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

	2013	2012
	£	£
Current tax:		
Corporation tax charge for the year at a rate of 20% (2012: 20%)	28	45
Over provision of the prior period charge	-	(64)
Total income tax charge/(credit) in Statement of Comprehensive Income	<u>28</u>	<u>(19)</u>

	2013	2012
	£	£
Reconciliation of total tax charge		
The tax assessed for the period is at the standard rate of corporation tax in the UK of 20% (2012: 20%)		
(Loss)/profit before tax	<u>(5,365,515)</u>	1,941,667
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2012: 20%)	(1,073,103)	388,333
Over provision of the prior period charge	-	64
Permanent difference to application of Taxation of Securitisation Companies Regulations 2006	<u>1,073,075</u>	<u>(388,378)</u>
Total income tax (charge)/credit in Statement of Comprehensive Income	<u>(28)</u>	<u>19</u>

6. MORTGAGE LOANS

	2013	2012
	£	£
At 1 April	59,712,821	63,389,342
Amortisation of discount	1,426	1,147
Redemptions	(6,245,739)	(4,909,507)
Movement in impairment provision during the year	<u>(5,754,167)</u>	<u>1,231,839</u>
At 31 March	<u>47,714,341</u>	<u>59,712,821</u>
The balance can be analysed as follows		
Non-current assets	2,256,707	2,294,752
Current assets	<u>45,457,634</u>	<u>57,418,069</u>
	<u>47,714,341</u>	<u>59,712,821</u>

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

6 MORTGAGE LOANS (CONTINUED)

The movement of the impairment provision can be analysed as follows

At 1 April	(2,116,691)	(3,348,530)
Provisions made during the year	(5,754,167)	-
Reversal during the year	-	1,231,839
At 31 March	<u>(7,870,858)</u>	<u>2,116,691</u>

The mortgage loans are classified as “loans and receivables” The mortgage loans are due for repayment between April 2013 and July 2015 The mortgage loans comprise fixed rate loans and variable rate loans Interest on the fixed rate mortgage loans are at rates ranging from 5.95% to 6.35% (2012 5.39% to 6.42%) The mortgage loans are secured over commercial properties held by Deutsche Bank AG, London Branch in its capacity as Borrower Security Trustee for the loans

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset The impairment represents the difference between the estimated valuation of the collateral and the loan outstanding

Impairments charged during the year on mortgage loans were Heathvale Estates Limited £1,296,845 (2012 £nil), Sandfile Limited £560,121 (2012 £nil) and CPI Retail Active Management Limited £3,897,201 (2012 £nil)

As at 31 March 2013, no impairment was charged against Commercial and Warehouse Properties, Holaw (420) Limited and I/S Scandinavian Property Investment V respectively

The Heathvale Estates loan defaulted on its maturity date in July 2012 and was subsequently transferred to the Special Servicer (Hatfield Philips International) The underlying property collateral was valued in at £4,895,000 Accordingly, an impairment of £1,296,845 has been booked to take account of changes in the estimated market value of the underlying properties at year-end

The Sandfile loan defaulted on its maturity date of 20 April 2012 and has been transferred to the special servicer The most recent external market valuation of the underlying property, dated May 2012, of £2,500,000 is estimated to be below the carrying value and therefore an impairment of £560,121 was provided as at 31 March 2013 Sandfile Limited entered into compulsory liquidation following the making of a winding up order on 3 September 2012, which was submitted by HMRC in regards to unpaid VAT and Corporation Tax An Official Receiver was appointed in September 2012

The Commercial and Warehouse Properties Ltd loan defaulted on its maturity date on 20 July 2012 and subsequently was transferred into Special Servicing with Hatfield Philips The most recent external market valuation of the underlying property, dated September 2012, of £13,750,000 is estimated to be above the carrying value and therefore, no impairment was provided as at 31 March 2013

The Holaw (420) Limited loan defaulted on its maturity date on 20 October 2011 and was subsequently transferred to the Special Servicer (Hatfield Philips International) on 21 October 2011 The underlying property collateral was last valued externally in January 2012 At year-end, the market value of the underlying property is estimated to be above the carrying value and therefore, no impairment was provided as at 31 March 2013

The CPI Retail loan defaulted on its maturity date on 20 October 2010 and was subsequently transferred into Special Servicing The underlying property collateral was valued in May 2013 at £24,700,000 Accordingly, an impairment of £3,897,201 has been booked to take account of changes in the estimated market value of the underlying properties at year-end

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

7. TRADE AND OTHER RECEIVABLES

	2013	2012
	£	£
Other debtors	2,109	2,109
Corporation tax debtor	-	24,039
Prepayments and accrued income	<u>294,483</u>	<u>386,124</u>
	<u>296,592</u>	<u>412,272</u>

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

8 CASH AND CASH EQUIVALENTS

Withdrawals from the Company's bank account are restricted by the detailed priority of payments set out in the securitisation agreements

	2013	2012
	£	£
Cash and cash equivalents	<u>69,243</u>	<u>41,287</u>

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

The use of cash and cash equivalents 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

9. TOTAL EQUITY

	Issued capital	Retained loss	Total
	£	£	£
At 1 April 2012	12,502	(2,772,557)	(2,760,055)
Loss for the year	-	<u>(5,365,543)</u>	<u>(5,365,543)</u>
Balance at 31 March 2013	<u>12,502</u>	<u>(8,138,100)</u>	<u>(8,125,598)</u>

There are 50,000 authorised ordinary shares of £1 each. The issued share capital comprises two fully paid £1 shares, and 49,999 ordinary shares quarter called up and paid. Wilmington Trust SP Services (London) Limited previously held one fully paid £1 share under a declaration of trust for charitable purposes. This one share was transferred to Castlewoods CS Holdings Limited on 28 September 2012. The remaining 49,999 shares are held by Deco Series 2005-UK Conduit 1 Holdings Limited.

10 LOAN NOTES

This note provides information about the contractual terms of the Company's interest-bearing loan notes. For more information about the Company's exposure to interest rate risk, see note 12.

	2013	2012
	£	£
At 1 April	61,829,513	66,737,873
Redemptions	(6,245,739)	(4,909,507)
Amortisation of discount	1,426	1,147
At 31 March	<u>55,585,200</u>	<u>61,829,513</u>
	2013	2012
	£	£
Non-current liabilities		
Loan notes	<u>10,127,566</u>	4,411,444
	<u>10,127,566</u>	<u>4,411,444</u>

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

10 LOAN NOTES (CONTINUED)

	2013	2012
Current liabilities	£	£
Loan notes	45,457,634	57,418,069
Interest payable on loan notes	<u>249,374</u>	<u>325,683</u>
	<u>45,707,008</u>	<u>57,743,752</u>

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

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

The loan notes are denominated in Pound Sterling

On 12 July 2005, the Company issued £195,215,000 Class A notes due July 2017, £14,785,000 Class B notes due July 2017, £12,400,000 Class C notes due July 2017, £10,750,000 Class D notes due July 2017 and £2,906,634 Class E notes due July 2017. Interest on the Class A notes is payable at a rate of 3 month LIBOR plus 0.23%. Interest on the Class B notes is payable at a rate of 3 month LIBOR plus 0.40%. Interest on the Class C notes is payable at a rate of 3 month LIBOR plus 0.57%. Interest on the Class D notes is payable at a rate of 3 month LIBOR plus 0.80%. Interest on the Class E notes is payable at a rate of 3 month LIBOR plus 1.25%.

At the reporting date principal amount of £15,573,572 (2012: £21,819,311) in respect of the Class A notes was outstanding, £14,489,223 (2012: £14,489,223) in respect of the Class B notes, £12,151,935 (2012: £12,151,935) in respect of the Class C notes, £10,534,944 (2012: £10,534,944) in respect of Class D notes and £2,848,486 (2012: £2,848,486) in respect of the Class E notes was outstanding. 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 beneficial interest in the mortgage portfolio from Deutsche Bank AG, London Branch in accordance with the terms of the securitisation documents.

On 12 July 2005, an agreement was entered into with Credit Agricole Corporate and Investment Bank (formerly Calyon) 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 on a temporary basis. The limit on this facility is £12,000,000 (2012: £12,000,000). A commitment fee of 0.15% per annum is charged on the undrawn amount of the liquidity facility commitment.

At 31 March 2013, an amount of £15,755 (2012: £nil) of liquidity facility was drawn. The liquidity facility was drawn to accommodate the interest shortfall that arose on the defaulted interest payments on mortgage loans during the year. The liquidity drawn was subsequently repaid in April 2013 in accordance with the terms of the liquidity facility agreement, which stipulates that the drawn amount should be repaid on the next distribution date. The liquidity facility for £5,000,000 was renewed for the period from 5 July 2013 to expire on 1 July 2014. The directors expect this facility to be renewed annually. The liquidity facility is secured by way of fixed and floating charges over the Company's assets.

11. TRADE AND OTHER PAYABLES

	2013	2012
Current liabilities	£	£
Liquidity facility drawn	15,755	-
Other creditors	812	812
Accruals and deferred income	<u>122,989</u>	<u>120,013</u>
	<u>139,556</u>	<u>120,825</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.

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

12 FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Directors' Report on page 2 to 5

The Company's financial instruments, other than derivatives, comprise a portfolio of mortgage loans, cash and liquid resources, loan notes and various receivables and payables that arise directly from its operations. The Company also enters into derivative transactions (principally interest rate swaps). The purpose of such transactions is to manage the interest rate risks arising from the Company's operations and its sources of finance. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments is undertaken.

The directors have considered the financial risks affecting the Company and have included the relevant disclosures of interest rate, credit, liquidity and currency risks in the Directors' Report.

Fair values

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

	Notes	Carrying amount 2013 £	Fair value 2013 £	Carrying amount 2012 £	Fair value 2012 £
Assets					
Mortgage loans	6	47,714,341	33,603,362	59,712,821	42,041,283
Trade and other receivables	7	296,592	296,592	412,272	412,272
Cash and cash equivalents	8	69,243	69,243	41,495	41,495
		<u>48,080,176</u>	<u>33,969,197</u>	<u>60,166,588</u>	<u>42,495,050</u>
Liabilities					
Loan notes	10	55,585,200	33,372,625	61,829,513	41,390,869
Interest payable	10	249,374	249,374	325,683	325,683
Derivative liability	13	230,737	230,737	650,414	650,414
Trade and other payables	11	139,556	139,556	120,825	120,825
		<u>56,204,867</u>	<u>33,992,292</u>	<u>62,926,435</u>	<u>42,487,791</u>

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

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.

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value hierarchy (continued)

The only financial instruments held at fair value on the Statement of Financial Position are derivatives. The derivatives all fall within the level 2 fair value hierarchy. The fair value of the derivatives is determined by discounting the future cash flows using the applicable yield curves derived from quoted interest rates. There have been no transfers between levels during the year.

As at 31 March 2013

Financial liabilities through profit or loss account	Total	Level 1	Level 2	Level 3
	£	£	£	£
Derivative financial instruments	<u>230,737</u>	<u>-</u>	<u>230,737</u>	<u>-</u>

As at 31 March 2012

Financial liabilities through profit or loss account	Total	Level 1	Level 2	Level 3
	£	£	£	£
Derivative financial instruments	<u>650,414</u>	<u>-</u>	<u>650,414</u>	<u>-</u>

Interest rate risk profile of financial liabilities

Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Interest rate swaps have been entered into with Deutsche Bank AG to manage the Company's exposure to the interest rate risk associated with the mortgage loans. The swaps reduce interest rate risk as a result of the variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the loan notes. As a result, the Company does not have a material net interest rate risk exposure and therefore has not presented a sensitivity analysis to interest rate risk.

Effective interest rates and repricing analysis

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

At 31 March 2013	Effective interest rate (%)	Total	Floating rate	Fixed rate	Non interest-bearing
		£	£	£	£
Assets					
Mortgage loans	1.92%	47,714,341	45,448,633	2,265,708	-
Trade and other receivables		296,592	-	-	296,592
Cash and cash equivalents		69,243	69,243	-	-
Total assets		<u>48,080,176</u>	<u>45,517,876</u>	<u>2,265,708</u>	<u>296,592</u>
Liabilities					
Derivative financial instrument		230,737	230,737	-	-
Trade and other payables		139,556	-	-	139,556
Loan note interest		249,374	249,374	-	-
Loan notes	1.23%	55,585,200	55,585,200	-	-
Total liabilities		<u>56,204,867</u>	<u>56,065,311</u>	<u>-</u>	<u>139,556</u>

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

Effective interest rates and repricing analysis (continued)

At 31 March 2012	Effective interest rate (%)	Total Floating rate £	Fixed rate £	Non interest - bearing £
Mortgage loans	3.44	59,712,821	-	-
Trade and other receivables		412,272	-	412,272
Cash and cash equivalents		41,287	41,287	-
Total assets		60,166,380	41,287	412,272
Liabilities				
Derivative liability		650,414	650,414	-
Trade and other payables		120,825	-	120,825
Liquidity draw down		325,683	325,683	-
Loan notes	1.26	61,829,513	61,829,513	-
Total liabilities		62,926,435	62,805,610	120,825

Prepayment risk

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

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company is not subject to any external capital requirements. The gearing ratios at 31 March 2013 and 2012 were 116.90% and 104.59% respectively.

Currency risk

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

Liquidity risk

Interest receipts on the mortgage loans may, under certain circumstances, be delayed. Such delays could adversely impact upon the ability of the Company to make timely payments of interest on the loan notes. In order to protect itself against this risk, the Company has entered into a liquidity facility agreement with Credit Agricole Corporate and Investment Bank (formerly Calyon (London Branch)) on 12 July 2005. As well as covering delays in the payment of interest on the mortgage loans, the liquidity facility agreement will also permit the Company to make drawings to pay certain expenses from time to time of the Company.

The facility has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. The base currency amount of the liquidity facility loan shall not at any time exceed £12,000,000 and can only be extended to a date that is not more than 364 days from the last day of the previous liquidity commitment period. Further information on the liquidity facility is disclosed in note 10.

The redemption of the notes is dependent on the receipt of payments on the loan notes. In accordance with the respective Prospectus for each of the Notes, Class A Notes will be redeemed in priority to redemption of the remaining classes of Notes followed by Class B, C, D and E. Interest payable on floating rate notes was estimated based on the floating rates amount as at 31 March 2013.

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

The undiscounted contractual cash flows for principal and interest on the loan notes have been disclosed in note 10

The table below reflects the undiscounted contractual cash flows of non derivative financial liabilities at the reporting date

Year ended 31 March 2013

	Total	Less than 1 year	1-2 years	2-5 years
Liabilities	£	£	£	£
Loan notes due 2017	55,585,200	45,457,634	-	10,127,566
Interest payable	249,374	249,374	-	-
	<u>55,834,574</u>	<u>45,707,008</u>	<u>-</u>	<u>10,127,566</u>

Year ended 31 March 2012

	Total	Less than 1 year	1-2 years	2-5 years
Liabilities	£	£	£	£
Loan notes due 2017	61,829,513	57,418,069	45,270	4,366,174
Interest payable	325,683	325,683	-	-
	<u>62,155,196</u>	<u>57,743,752</u>	<u>45,270</u>	<u>4,366,174</u>

Interest payable on the loan notes to maturity at 31 March

	Less than one year	1 year – 5 years	Total
	£	£	£
31 March 2013	<u>682,250</u>	<u>107,505</u>	<u>789,755</u>
31 March 2012	<u>415,768</u>	<u>137,848</u>	<u>553,616</u>

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

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

	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years
	£	£	£	£	£
As at 31 March 2013	230,737	221,870	23,875	71,624	126,372
As at 31 March 2012	650,414	673,829	50,026	405,863	217,940

Credit risk

Credit risk on the mortgage loans arises where the borrower is not 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

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The most significant concentration of credit risk is considered to be the mortgage loans to CPI Retail Active Management and Commercial and Warehouse Properties with gross balances of £28,501,092 (2012 £30,022,485) and £9,853,242 (2012 £10,046,746) respectively, which together constitute approximately 72% of the total loan portfolio. At 31 March 2013, the carrying amount of mortgages outstanding was £53,481,471 (2012 £59,712,821). The mortgage loan portfolio consists of 6 loans (2012 8 loans) secured over 12 properties (2012 14 properties).

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

Financial assets	Notes	Carrying amount 2013 £	Maximum exposure 2013 £	Carrying amount 2012 £	Maximum exposure 2012 £
Mortgage loans	6	47,714,341	47,714,341	59,712,821	42,041,283
Trade and other receivables	8	296,592	296,592	412,272	412,272
Cash and cash equivalents	7	69,243	69,243	41,495	41,495
Total assets		<u>48,080,176</u>	<u>48,080,176</u>	<u>60,166,588</u>	<u>60,166,588</u>

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

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

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

	Gross carrying amount 2013 £	Impairment 2013 £	Fair value of collateral 2013 £	Gross Carrying amount 2012 £	Impairment 2012 £	Fair value of collateral 2012 £
Neither past due nor impaired	2,278,671	-	3,875,000	26,036,352	-	31,548,830
Past due but not impaired	13,507,227	-	17,749,975	33,676,469	-	35,287,776
Impaired	<u>37,695,573</u>	<u>(5,754,167)</u>	<u>31,941,406</u>	-	-	-
	<u>53,481,471</u>	<u>(5,754,167)</u>	<u>53,566,381</u>	<u>59,712,821</u>	-	<u>66,836,606</u>

The allowance for impairment of £5,754,167 differs from the cumulative impairment of £7,870,858 in Note 6 due to the fact that the following loans were written off in previous years: Kashani (£1,117,911), Metro Prop (£593,987) and Mondeal (£404,794) and are not included in the analysis above.

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

DECO SERIES 2005–UK CONDUIT 1 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2013

13 DERIVATIVE FINANCIAL INSTRUMENTS

The net fair values of derivative financial instruments at the Statement of Financial Position date were

	2013	2012
	£	£
Interest rate swaps fair value at start of year	650,414	1,360,019
Change in fair value	(419,677)	(709,605)
Interest rate swaps fair value at end of year	<u>(230,737)</u>	<u>(650,414)</u>

The notional principal amount of all the outstanding interest rate swap contracts at 31 March 2013 was £2,342,054 (2012, £24,107,255). The interest rate swaps receive a fixed rate based on 3-month LIBOR (2012 3-month LIBOR) and pay a fixed rate of 4.60% (2012 ranging from 4.60% to 5.02%).

In accordance with IAS 39 'Financial Instruments Recognition and Measurement', the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard.

The Company has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the loan notes exercisable on certain dates. The option constitutes an embedded derivative, however, as this is closely related to the underlying host contract (the loan notes) as set out in IAS 39, the option does not require separation. A similar hybrid instrument arises on the mortgage loan whereby the Company has effectively sold a put option on the mortgage loans exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

14 RELATED PARTY TRANSACTIONS

The Company is a special-purpose vehicle controlled by its Board of directors. On 28 September 2012, Wilmington Trust SP Services (London) Limited, Mr M H Filer and Mr J Traynor resigned as directors of the Company. On the same date, Mr Graham Cox and Mr Graham Hodgkin were appointed directors of the Company. The Company pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The fees payable to them for their services for the year ended 31 March 2013 amounted to £14,309 (2012 £14,005).

On 28 September 2012, Deutsche Bank AG, London Branch was appointed as Corporate Services Provider and the fees payable for part of the year ended 31 March 2013 were £1,244 (2012 £nil) with £1,244 (2012 £nil) unpaid at year end.

15 ULTIMATE PARENT UNDERTAKING

Deco Series 2005-UK Conduit 1 PLC is a company incorporated in the United Kingdom and registered in England and Wales.

Deco Series 2005-UK Conduit 1 Holdings Limited holds 49,999 shares in the Company. Wilmington Trust SP Services (London) Limited held one share in Deco Series 2005-UK Conduit 1 PLC and the entire share capital in Deco Series 2005-UK Conduit 1 Holdings Limited under a declaration of trust for charitable purposes. The one share held by Wilmington Trust SP Services (London) Limited was transferred to Castlewood CS Holdings Limited on 28 September 2012.

The directors consider that Deco Series 2005-UK Conduit 1 Holdings Limited is the ultimate controlling entity of the Company by virtue of its shareholding in the Company.

16. SUBSEQUENT EVENTS

On 29 April 2013, the amount of liquidity facility of £15,755 drawn as at 31 March 2013 was repaid to Credit Agricole and Investment Bank (formerly Calyon). In addition, the liquidity facility was renewed for the period from 5 July 2013 to expire on 1 July 2014.