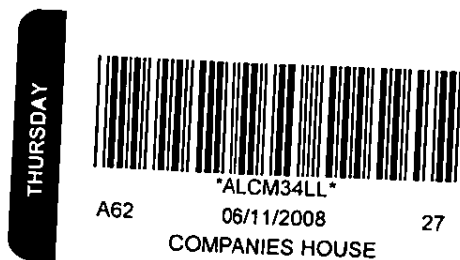


**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**



# **DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

## **FOR THE YEAR ENDED 31 MARCH 2008**

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# **DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

## **COMPANY INFORMATION**

<b>The board of directors</b>	Wilmington Trust SP Services (London) Limited Mr M H Filer Mr J Traynor
<b>Company secretary</b>	Wilmington Trust SP Services (London) Limited
<b>Registered office</b>	c/o Wilmington Trust SP Services (London) Limited Fifth Floor 6 Broad Street Place London EC2M 7JH
<b>Auditors</b>	Deloitte & Touche LLP London

# **DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2008**

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 6 – UK Large Loan 2 Plc, for the year ended 31 March 2008

#### **PRINCIPAL ACTIVITIES AND ENHANCED BUSINESS REVIEW**

The Company's principal activity is to hold an investment in Deco 6 – UK Large Loan 2 Plc and hold the Post-Enforcement Call Option and other similar options granted in respect of securities granted by other issuers

The Post-Enforcement Call Option will permit the Company to acquire from the noteholders all the notes then outstanding at a price of one penny per note when notice is received from the Issuer Security Trustee

Deco 6 – UK Large Loan 2 Plc is a special purpose company established in order to issue floating rate loan notes due July 2017 ("the Notes") and to acquire the beneficial interest in a mortgage portfolio from Deutsche Bank AG, London Branch, ("the Mortgage Loan") Deco 6 – UK Large Loan 2 Plc was also established in order 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 1 December 2005 On 6 December 2005, the subsidiary issued £555,119,911 floating rate loan notes in accordance with the Offering Circular

The key performance indicator of the business is considered to be the net interest margin During 2008, the Group achieved a net interest margin of 2.36% (2007 2.62%) At the year end, the Group had net assets of £146,828 (2007 £8,368,250) due to the fair value movement of the derivatives

#### **RESULTS AND DIVIDENDS**

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

The loss of the Group after tax amounted to £8,221,422 (2007 profit after tax of £12,182,121)

The directors have not recommended a dividend

#### **FUTURE DEVELOPMENTS**

The directors will continue to closely monitor the Group's progress There were no significant events affecting the Group after the year end The directors do not expect any significant changes in the operating activities of the Group or Company after the year end

#### **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 noteholders 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**

The Group's financial instruments, other than derivatives, comprise mortgage loans, cash and cash equivalents, interest-bearing borrowings and various receivables and payables that arise directly from its operations The main purpose of these financial instruments is to acquire a mortgage portfolio from Deutsche Bank AG, London Branch

The Group also enters into derivative transactions (principally three interest rate swaps and three basis swaps) The purpose of such transactions is to manage the interest rate risk arising from the Group's operations and its sources of finance

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken

Further, the directors acknowledge that the global macro-economic indicators and general business environment have deteriorated during 2007, and have worsened during 2008 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 deemed loan Conditions may deteriorate further due to the continued global financial and economic uncertainty

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

## **DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **FOR THE YEAR ENDED 31 MARCH 2008**

##### **FINANCIAL INSTRUMENTS (CONTINUED)**

###### **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 and basis swaps to mitigate any residual interest rate risk.

###### **Credit risk**

The principal credit risk to the Group is that the borrowers will not be able to meet their obligations as they fall due. The mortgage loans are secured on a number of UK commercial properties which are geographically diverse and include a diverse tenant portfolio.

The most significant concentration of credit risk is considered to be the mortgage loans. At 31 March 2008, the loan amount outstanding was £369,517,357 (2007 £370,040,245). The largest exposure to credit risk is considered to be Mapeley totalling £170,907,800 (2007 £170,907,800). The mortgage loan portfolio consists of 3 loans secured over 22 properties.

###### **Liquidity risk**

A facility provided by Calyon (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 was renewed on 4 December 2007 to expire on 2 December 2008. 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.

##### **DIRECTORS**

The directors who served the Group during the year were as follows:

Wilmington Trust SP Services (London) Limited  
(previously named SPV Management Limited)

Mr M R G Baker – resigned on 28 February 2008

Mr M H Filer

Mr J Traynor – appointed on 28 February 2008

##### **AUDITORS**

A resolution to re-appoint Deloitte & Touche LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

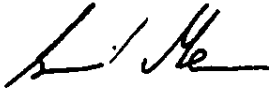
**FOR THE YEAR ENDED 31 MARCH 2008**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware,
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information, and
- This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Signed by order of the directors



For and on behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Company Secretary  
Date 4 November 2008

## **DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

#### **FOR THE YEAR ENDED 31 MARCH 2008**

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. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- 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 proper accounting records that 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 1985. 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 AUDITORS' REPORT TO THE MEMBERS OF DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

We have audited the group and parent company financial statements (the "financial statements") of DECO 6 – UK Large Loan 2 Holding Limited for the year ended 31 March 2008 which comprise the Group and Company income statements, the Group and Company balance sheets, the Group and Company statements of changes in equity, the Group and Company cash flow statements and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state 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 auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Directors' Report and considered the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Directors' Report.

### **Basis of audit opinion**

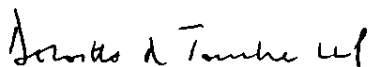
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the group and parent financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's loss and the parent company result for the year ended 31 March 2008,
- the group and parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
4 November 2008



# DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

Continuing operations	Notes	2008 £	2007 £
Interest income	2	24,926,281	22,276,114
Interest expense	3	<u>(24,338,620)</u>	<u>(21,692,459)</u>
Net interest income		587,661	583,655
Fair value (loss)/gain on derivative financial instruments	16	(10,188,937)	15,760,696
Other operating expenses	4	<u>(554,281)</u>	<u>(538,795)</u>
(Loss)/profit before tax for the year		(10,155,557)	15,805,556
Income tax (credit)/charge	5	<u>1,934,135</u>	<u>(3,623,435)</u>
(Loss)/profit after tax for the year attributable to equity holders	11	<u>(8,221,422)</u>	<u>12,182,121</u>

The notes on pages 14 to 30 form part of these financial statements

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**COMPANY INCOME STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2008**

		2008	2007
	Notes	£	£
<b>Continuing operations</b>			
<b>Profit before tax for the year/period</b>		-	-
<b>Income tax expense</b>		<u>-</u>	<u>-</u>
<b>Profit after tax for the year/period attributable to equity holders</b>	<b>11</b>	<u><u>-</u></u>	<u><u>-</u></u>

The notes on pages 14 to 30 form part of these financial statements


# DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

## CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2008

	Notes	2008 £	2007 £
<b>Non-current assets</b>			
Mortgage loan	8	<u>368,994,469</u>	<u>369,517,357</u>
<b>Current assets</b>			
Deferred tax asset	6	21,077	-
Derivative financial instruments	16	-	10,083,555
Mortgage loan	8	522,888	522,888
Trade and other receivables	9	4,225,777	4,005,218
Cash and cash equivalents	10	<u>325,158</u>	<u>281,982</u>
		<u>5,094,900</u>	<u>14,893,643</u>
<b>Total assets</b>		<u><b>374,089,369</b></u>	<u><b>384,411,000</b></u>
<b>Equity</b>			
Share capital	11	1	1
Retained earnings	11	<u>146,827</u>	<u>8,368,249</u>
<b>Total equity</b>		<u><b>146,828</b></u>	<u><b>8,368,250</b></u>
<b>Non-current liabilities</b>			
Interest-bearing loan notes	12	368,994,469	369,517,357
Non interest-bearing loans	13	<u>12,501</u>	<u>12,501</u>
<b>Total non-current liabilities</b>		<u><b>369,006,970</b></u>	<u><b>369,529,858</b></u>
<b>Current liabilities</b>			
Interest-bearing loan notes	12	522,888	522,888
Accrued interest	12	3,910,690	3,698,025
Trade and other payables	14	385,270	303,060
Current tax liability		11,340	73,043
Deferred tax liability	6	-	1,915,876
Derivative financial instruments	16	<u>105,383</u>	<u>-</u>
<b>Total current liabilities</b>		<u><b>4,935,571</b></u>	<u><b>6,512,892</b></u>
<b>Total liabilities</b>		<u><b>373,942,541</b></u>	<u><b>376,042,750</b></u>
<b>Total equity and liabilities</b>		<u><b>374,089,369</b></u>	<u><b>384,411,000</b></u>

These financial statements on pages 7 to 30 were approved by the directors, authorised for issue on 4 November 2008 and signed on their behalf by

  
 For and on behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
 Director

The notes on pages 14 to 30 form part of these financial statements

# DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

## COMPANY BALANCE SHEET

AS AT 31 MARCH 2008

	Notes	2008 £	2007 £
<b>Non-current assets</b>			
Investment in subsidiary	7	<u>12,501</u>	<u>12,501</u>
<b>Current assets</b>			
Cash and cash equivalents	10	<u>1</u>	<u>1</u>
<b>Total assets</b>		<u><u>12,502</u></u>	<u><u>12,502</u></u>
<b>Equity</b>			
Share capital	11	1	1
Retained earnings	11	<u>-</u>	<u>-</u>
<b>Total equity</b>		<u><u>1</u></u>	<u><u>1</u></u>
<b>Non-current liabilities</b>			
Non interest-bearing loans	13	<u>12,501</u>	<u>12,501</u>
<b>Total non-current liabilities</b>		<u><u>12,501</u></u>	<u><u>12,501</u></u>
<b>Total liabilities</b>		<u><u>12,501</u></u>	<u><u>12,501</u></u>
<b>Total equity and liabilities</b>		<u><u>12,502</u></u>	<u><u>12,502</u></u>

These financial statements on pages 7 to 30 were approved by the directors, authorised for issue on 4 November 2008 and signed on their behalf by



For and on behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Director

The notes on pages 14 to 30 form part of these financial statements

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	2008 £	2007 £
At start of year 1 April 2007		8,368,250	(3,813,871)
(Loss)/profit for the year	11	<u>(8,221,422)</u>	<u>12,182,121</u>
Closing equity at 31 March 2008		<u>146,828</u>	<u>8,368,250</u>

**COMPANY STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 MARCH 2008**

	Note	2008 £	2007 £
At start of year 1 April 2006		1	1
Profit for the year	11	<u>-</u>	<u>1</u>
Closing equity at 31 March 2008		<u>1</u>	<u>1</u>

The notes on pages 14 to 30 form part of these financial statements

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	2008	2007
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax for the year		(10,155,557)	15,805,556
<i>Adjustments for</i>			
Fair value movement on derivative financial instrument		10,188,937	(15,760,696)
Bank interest receivable	2	(32,551)	(42,636)
Interest on overdue tax	3	2,724	-
Increase in trade and other receivables	9	(220,559)	(403,020)
Increase/(decrease) in trade and other payables	12,14	<u>294,875</u>	<u>(2,344,245)</u>
<b>Net cash from /(used in) operating activities</b>		<u>77,869</u>	<u>(2,745,041)</u>
<b>Taxation paid</b>		(64,520)	-
<b>Investing activities</b>			
Repayments during year/period	8	522,888	392,166
Bank interest received	2	32,551	42,636
Interest on overdue tax		<u>(2,724)</u>	<u>-</u>
<b>Net cash from investing activities</b>		<u>552,715</u>	<u>434,802</u>
<b>Financing activities</b>			
Redemption of loan notes during the year/period	12	<u>(552,888)</u>	<u>(185,079,666)</u>
<b>Net cash used in financing activities</b>		<u>(552,888)</u>	<u>(185,079,666)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		43,176	(187,389,905)
Cash and cash equivalents at beginning of year		<u>281,982</u>	<u>187,671,887</u>
<b>Cash and cash equivalents at 31 March</b>	10	<u>325,158</u>	<u>281,982</u>

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

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**  
**COMPANY STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	2008 £	2007 £
<b>Cash flows from operating activities</b>			
Profit before tax for the year		—	—
<b>Net cash from operating activities</b>		—	—
Cash and cash equivalents at beginning of year		1	1
<b>Cash and cash equivalents at 31 March</b>	<b>10</b>	<u>1</u>	<u>1</u>

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

# DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES

Deco 6 – UK Large Loan 2 Holding Limited is a Company incorporated in the UK under the Companies Act 1985 and domiciled in England. The address of the registered office is given on page 1.

##### **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 for the year ended 31 March 2008.

The accounting policies set out below have been applied in respect of the financial year ended 31 March 2008.

##### **Basis of preparation**

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007.

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 income statement.

##### **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.

##### **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 uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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 on 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.



## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

##### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

##### **Financial instruments**

The Group's financial instruments comprise of a mortgage loan, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to acquire a beneficial interest in mortgage loans. 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 and interest receivable thereon 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.

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.

##### **Deferred consideration**

Deferred purchase consideration represents further amounts payable on the acquisition of commercial mortgage loans from Deutsche Bank AG, London Branch. Provision is made for the deferred purchase consideration as amounts become payable as a result of the performance of the acquired commercial mortgage loans and is included in the income statement as an expense.

##### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

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.

##### **Derivative financial instruments and hedging activities**

Derivative financial instruments are classified as fair value through profit and loss. The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as held for trading.

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 profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

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 balance sheet 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 income statement.

## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

##### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

###### **Interest-bearing loans**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings and interest payable thereon 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 on profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 balance sheet date.

Under special rules issued by the HMRC for securitisation companies, the company's charge for taxation is based on its taxable profits calculated on a UK GAAP basis but is disclosed in accordance with IAS 12.

## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

##### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

###### **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 period

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009) The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The new standard is not expected to have any impact on the Company's financial statements.

IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009) IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. IAS 27 revised is not relevant to the Company's operations because the Company does not have controlling or non-controlling interests.

IAS 32 (amended) 'Financial Instruments- Presentation' (effective from 1 January 2009) In February 2008, the IASB amended IAS 32 by requiring some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This revision is not relevant to the Company as it does not have any such instruments.

IFRS 3 (amended), 'Business combinations' (effective from 1 July 2009) The IASB published a revised IFRS 3, 'Business combinations'. The standard continues to apply the acquisition method to business combinations, with some significant changes. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. IFRS 3 is not relevant to the Company's operations because the Company does not have any business combinations.

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008) IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Company's operations because the Company does not provide for public sector services.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008) IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programmes.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008) IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to the Company's operations because the Company has no employees and also does not provide pension.

## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

##### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendment to IFRS 2, Share based payments (effective from 1 January 2009) The IASB has published an amendment to IFRS 2, 'Share-based payment' dealing with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The new standard is not expected to have any impact on the Company's 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.

##### 2. INTEREST INCOME

	2008	2007
	Group	Group
	£	£
Income from mortgage loans	21,512,771	22,233,478
Net swap interest receivable	3,380,959	-
Bank interest received	32,551	42,636
	<u>24,926,281</u>	<u>22,276,114</u>

##### 3 INTEREST EXPENSE

	2008	2007
	Group	Group
	£	£
Interest on loan notes	23,317,580	20,660,280
Net swap interest payable	-	151,249
Deferred consideration	1,018,316	880,930
Interest on overdue tax	2,724	-
	<u>24,338,620</u>	<u>21,692,459</u>

## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

#### 4. OTHER OPERATING EXPENSES

	2008	2007
	Group	Group
	£	£
Administration and cash management fees	522,457	498,666
Audit fees for the audit of the Group's accounts		
Parent company	3,500	3,500
Subsidiaries	18,825	29,459
Corporate services fees	<u>9,499</u>	<u>7,170</u>
	<u>554,281</u>	<u>538,795</u>

The directors received no emoluments for their services as directors to the Group during the period, except for those disclosed in note 17. The directors had no 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 or preceding period.

#### 5. INCOME TAX EXPENSE

Group	2008	2007
	£	£
<b>Current tax:</b>		
Corporation tax charge for the year at a rate of 20%/19%	6,876	8,523
Adjustment to prior year's charge	(4,058)	(4,106)
<b>Deferred tax</b>		
Deferred tax (credit)/charge at 20%/19%	<u>(1,936,953)</u>	3,619,018
Total income tax (credit)/charge in the income statement	<u>(1,934,135)</u>	<u>3,623,435</u>
	2008	2007
	£	£
<b>Reconciliation of total tax charge</b>		
The tax assessed for the period is at the standard rate of corporation tax in the UK of 20% (2007: 19%)		
(Loss)/profit before tax	<u>(10,155,557)</u>	<u>15,805,556</u>
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2007: 19%)	(2,031,111)	3,003,056
Change in tax rate in computing deferred tax charge	100,834	624,485
Disallowable items	200	-
Adjustment to prior year's charge	<u>(4,058)</u>	<u>(4,106)</u>
Total income tax (credit)/charge in income statement	<u>(1,934,135)</u>	<u>3,623,435</u>

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**5 INCOME TAX EXPENSE (CONTINUED)**

<u>Company</u>	2008	2007
<b>Current tax</b>	<b>£</b>	<b>£</b>
Corporation tax charge for the period at a rate of 20%/19%	-	-
Total income tax expense in income statement	-	-

	2008	2007
<b>Reconciliation of total tax charge</b>	<b>£</b>	<b>£</b>
The tax assessed for the period is at the small companies' rate of corporation tax in the UK of 20% (2007 19%)		
Profit before tax	-	-
Profit before tax multiplied by the small companies rate of corporation tax in the UK of 20% (2007 19%)	-	-
Total income tax expense in income statement	-	-

<b>Deferred tax asset / (liability)</b>	
At 1 April 2007	(1,915,876)
Credit to income for the year	<u>1,936,953</u>
Balance carried forward	<u><u>21,077</u></u>

Deferred taxes are provided in full on temporary differences under the liability method using a principal rate of tax of 20% (2007 19%)

The deferred tax asset is attributable to temporary differences arising in respect of the following items

	2008
	<b>£</b>
Deferred tax liability on derivatives at 1 April 2007	(1,915,876)
Fair value movement of derivatives	<u>1,936,953</u>
Deferred tax asset on derivatives at 31 March 2008	<u><u>21,077</u></u>

The deferred tax credit in the income statement comprises the following temporary differences

	2008
	<b>£</b>
Fair value movement of derivatives	<u>1,936,953</u>
Net deferred tax credit	<u><u>1,936,953</u></u>

Finance Act 2007 changed the corporation tax rates from 20% to 21% and from 30% to 28% with effect from 1 April 2008. The legislation was substantially enacted in June 2007. The deferred tax asset that would be recognised if calculated using a rate of 21% would be £22,130.

# DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 7 INVESTMENT IN SUBSIDIARY

	2008 Company £
At 1 April 2007 and 31 March 2008	<u>12,501</u>

The investment represents the acquisition of 99.98% of the issued ordinary share capital of Deco 6 – UK Large Loan 2 Plc, a special purpose entity registered in England and Wales. Deco 6 – UK Large Loan 2 Plc is a special purpose company established in order to issue floating rate loan notes due July 2017 (“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 1 December 2005. This transaction has been accounted for by the purchase method of accounting.

#### 8 MORTGAGE LOAN

	2008 £	2007 £
Group		
At 1 April 2007	370,040,245	370,432,411
Redemptions in year	<u>(522,888)</u>	<u>(392,166)</u>
At 31 March 2008	<u>369,517,357</u>	<u>370,040,245</u>
The balance can be analysed as follows		
Current assets	522,888	522,888
Non-current assets	<u>368,994,469</u>	<u>369,517,357</u>
	<u>369,517,357</u>	<u>370,040,245</u>

The mortgage loans are due for repayment by July 2015. At 31 March 2008, £369,517,357 (2007 £370,040,245) was outstanding. At 31 March 2008, interest on £95,000,000 (2007 £95,000,000) of the outstanding principal was at a fixed rate of 5.53%, interest on £103,609,557 (2007 £104,132,445) was at a fixed rate of 6.24% and interest on the remaining £170,907,800 (2007 £170,907,800) was at a fixed rate of 5.70%. The loans are secured over commercial properties held by Deutsche Bank AG, London Branch in its capacity of Borrower Security Trustee on behalf of the Group.

The Servicer is responsible for monitoring compliance with the loan to value and coverage covenants in accordance with the servicing agreement dated 4 October 2005. At its sole discretion it has the ability to call for a revaluation of the mortgage property. The Servicer has confirmed that as at the report date the coverage and loan to value covenants have not been breached.

#### 9 TRADE AND OTHER RECEIVABLES

	2008 Group £	2008 Company £	2007 Group £	2007 Company £
Other debtors	36,297	-	36,297	-
Prepayments and accrued income	<u>4,189,480</u>	-	<u>3,968,921</u>	-
	<u>4,225,777</u>	-	<u>4,005,218</u>	-

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

# DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 10. CASH AND CASH EQUIVALENTS

	2008 Group £	2008 Company £	2007 Group £	2007 Company £
Cash and cash equivalents	<u>325,158</u>	<u>1</u>	<u>281,982</u>	<u>1</u>

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

The Company has deposits in bank accounts held in the Company'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

	Issued capital £	Retained profit/(loss) £	Total £
<b>Group</b>			
At 1 April 2007	1	8,368,249	8,368,250
Loss for the year	<u>-</u>	<u>(8,221,422)</u>	<u>(8,221,422)</u>
Balance at 31 March 2008	<u>1</u>	<u>146,827</u>	<u>146,828</u>
<b>Company</b>			
At 1 April 2007	1	-	1
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 March 2008	<u>1</u>	<u>-</u>	<u>1</u>

There are 100 authorised ordinary shares of £1 each. The issued share capital comprises one £1 share called up and fully paid. Wilmington Trust SP Services (London) Limited holds the entire share capital in the Company 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. For more information about the Group's exposure to interest rate risk, see note 15.

<b>Group</b>	2008 £	2007 £
At 1 April 2007	370,040,245	559,119,911
Redemptions in year	<u>(522,888)</u>	<u>(185,079,666)</u>
At 31 March 2008	<u>369,517,357</u>	<u>374,040,245</u>
<b>Non-current liabilities</b>		
Loan notes	<u>368,994,469</u>	<u>369,517,357</u>
	<u>368,994,469</u>	<u>369,517,357</u>
<b>Current liabilities</b>		
Loan notes	522,888	522,888
Interest payable on loan notes	<u>3,910,690</u>	<u>3,698,025</u>
	<u>4,433,578</u>	<u>4,220,913</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.



## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

#### 12. INTEREST-BEARING LOANS (Continued)

On 6 December 2005 an agreement was entered into with Calyon (London Branch) for the provision of a liquidity facility for the Group. The facility is in place to allow the Group to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loan. At the balance sheet date, the limit on this facility was £39,000,000. 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 Group's assets including the mortgage loan.

Interest-bearing loans and borrowings are repayable as follows:

##### Year ended 31 March 2008

Group	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£	£	£	£	£
<b>Liabilities</b>					
Floating rate notes due 2017	369,517,357	522,888	522,888	197,563,781	170,907,800
Interest payable	<u>3,910,690</u>	<u>3,910,690</u>	-	-	-
	<u>373,428,047</u>	<u>4,433,578</u>	<u>522,888</u>	<u>197,563,781</u>	<u>170,907,800</u>

##### Year ended 31 March 2007

Group	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£	£	£	£	£
<b>Liabilities</b>					
Floating rate notes due 2017	370,040,245	522,888	522,888	1,568,665	367,425,804
Interest payable	<u>3,698,025</u>	<u>3,698,025</u>	-	-	-
	<u>373,738,270</u>	<u>4,220,913</u>	<u>522,888</u>	<u>1,568,665</u>	<u>367,425,804</u>

The loan notes are denominated in the following currencies:

Group	2008	2007
	£	£
Sterling	<u>369,517,357</u>	<u>370,040,245</u>

On 6 December 2005, the Group issued £173,000,000 Class A1 notes due July 2017, £259,900,000 Class A2 notes due July 2017, £43,000,000 Class B notes due July 2017, £49,100,000 Class C notes due July 2017 and £30,119,911 Class D notes due July 2019. Interest on the Class A1 notes is payable at a rate of 3 month LIBOR plus 0.20%. Interest on the Class A2 notes is payable at a rate of 3 month LIBOR plus 0.25%. Interest on the Class B notes is payable at a rate of 3 month LIBOR plus 0.44%. Interest on the Class C notes is payable at a rate of 3 month LIBOR plus 0.70%. Interest on the Class D notes is payable at a rate of 3 month LIBOR plus 1.05%.

At the balance sheet date £63,646,805 (2007: £64,169,693) in respect of the Class A1 notes was outstanding, £208,038,771 (2007: £208,038,771) in respect of Class A2 notes, £34,419,650 (2007: £34,419,650) in respect of Class B notes, £39,302,438 (2007: £39,302,438) in respect of Class C notes, and £24,109,693 (2007: £24,109,693) in respect of the Class D notes. The notes are secured by way of a fixed and floating charge over the assets of the Group. The proceeds of the notes were used by the Group to acquire the mortgage loans from Deutsche Bank AG in accordance with the terms of the securitisation documents.

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**12 INTEREST-BEARING LOANS (Continued)**

Interest payable on the Notes to maturity, based on spot rates at 31 December

	Less than one year £	1 year – 5years £	Over 5 years £	Total £
31 March 2008	23,146,567	92,258,732	32,116,994	147,522,293
31 March 2007	19,182,886	76,460,480	45,626,935	141,270,301

**13. NON INTEREST-BEARING LOANS**

	2008 Group £	2008 Company £	2007 Group £	2007 Company £
<b>Non-current liabilities</b>				
Other loans	<u>12,501</u>	<u>12,501</u>	<u>12,501</u>	<u>12,501</u>
Other loans relate to an amount received from Wilmington Trust SP Services (London) Limited, a related company				

Non interest-bearing loans and borrowings are repayable as follows

	2008 Group £	2008 Company £	2007 Group £	2007 Company £
<b>In more than five years</b>				
Other loans	<u>12,501</u>	<u>12,501</u>	<u>12,501</u>	<u>12,501</u>
Non interest-bearing loans are denominated in Sterling				

**14 TRADE AND OTHER PAYABLES**

	2007 Group £	2007 Group £
<b>Current liabilities</b>		
Other creditors	67,576	6,082
Accruals and deferred income	<u>317,694</u>	<u>296,978</u>
	<u>385,270</u>	<u>303,060</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 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

##### 15. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties are set out in the Directors' Report on page 3

###### Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure using interest rate swaps. More specifically, the Company is exposed to basis risk due to the timing difference in interest payment dates on the Notes and the deemed loan. This is hedged using an interest rate basis swap that is taken out on inception of the securitisation.

After taking into consideration the Company'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 Company's other assets and liabilities, the directors do not believe that the Group has any significant interest rate re-pricing exposure.

###### Interest rate sensitivity

The sensitivity of the Group to interest rate changes, and the resulting changes in net assets attributable to equity shareholders, is limited as the Group uses interest rate swaps to mitigate the risk and only retains 0.01% of available revenue receipts from the beneficial interest in the mortgage portfolio with the resulting fluctuations being taken up by the deferred purchase consideration due to Deutsche Bank AG.

###### 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 Mapeley mortgage loan totalling £170,907,800 (2007 £170,907,800). The directors consider that the Group's beneficial interest in the commercial properties granted as security will be sufficient to recover the full amount of these loans.

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

	31 March 2008	31 March 2007
	£	£
Neither past due nor impaired	369,517,357	370,040,245
Past due but not impaired	-	-
Impaired	<u>-</u>	<u>-</u>
	369,517,357	370,040,245
Less allowance for impairment	-	-
	<u>369,517,357</u>	<u>370,040,245</u>

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.

###### 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 March 2008 this facility was not required, and has not been used during the year. The liquidity facility was renewed on 4 December 2007 to expire on 2 December 2008. The directors expect this facility to be renewed annually.

## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

#### 15. PRINCIPAL RISKS AND UNCERTAINTIES (continued)

##### Currency risk

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

##### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any external capital requirements except for the minimum requirement under the Companies Act 1985. The Group has not breached the minimum requirement. The gearing ratios at 31 March 2008 and 31 March 2007 were 99.96% and 97.82% respectively.

##### Financial instruments

The Group's financial instruments, other than derivatives, comprise of 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 Company'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 table below provides details of the fair value of financial assets and liabilities.

##### Fair values

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

Group	Notes	Carrying amount 2008 £	Fair value 2008 £	Carrying amount 2007 £	Fair value 2007 £
Deferred tax asset	6	21,077	21,077	-	-
Derivative financial instruments	16	-	-	10,083,555	10,083,555
Mortgage loans	8	369,517,357	349,346,112	370,040,245	367,496,819
Trade and other receivables	9	4,225,777	4,225,777	4,005,218	4,005,218
Cash and cash equivalents	10	<u>325,158</u>	<u>325,158</u>	<u>281,982</u>	<u>281,982</u>
Total assets		<u>374,089,369</u>	<u>353,918,124</u>	<u>384,411,000</u>	<u>381,867,574</u>
Interest-bearing loans and borrowings	12	(369,517,357)	(332,688,367)	(370,040,245)	(370,146,217)
Non-interest bearing loans	13	(12,501)	(12,501)	(12,501)	(12,501)
Interest payable	12	(3,910,690)	(3,910,690)	(3,698,025)	(3,698,025)
Trade and other payables	14	(385,270)	(385,270)	(303,060)	(303,060)
Current tax liability		(11,340)	(11,340)	(73,043)	(73,043)
Deferred tax liability	6	-	-	(1,915,876)	(1,915,876)
Derivative financial instruments	16	<u>(105,383)</u>	<u>(105,383)</u>	-	-
Total liabilities		<u>(373,942,541)</u>	<u>(337,113,551)</u>	<u>(376,042,750)</u>	<u>(376,148,722)</u>
		<u>146,828</u>	<u>16,804,573</u>	<u>8,368,250</u>	<u>5,718,852</u>

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**15. PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

Company	Notes	Carrying amount 2008 £	Fair value 2008 £	Carrying amount 2007 £	Fair value 2007 £
Investment in subsidiary	7	12,501	12,501	12,501	12,501
Cash and cash equivalents	10	1	1	1	1
Non-interest bearing loans	13	<u>(12,501)</u>	<u>(12,501)</u>	<u>(12,501)</u>	<u>(12,501)</u>
		<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

**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 repricing

Group At 31 March 2008	Weighted average effective interest rate %	1 to 3 months £	Non interest bearing £	Total £
<b>Assets</b>				
Trade and other receivables	-	-	4,225,777	4,225,777
Mortgage loans	5.774%	369,517,357	-	369,517,357
Deferred tax asset	-	-	21,077	21,077
Cash and cash equivalents	-	<u>325,158</u>	-	<u>325,158</u>
Total assets		<u>369,842,515</u>	<u>4,246,854</u>	<u>374,089,369</u>

<b>Liabilities</b>				
Accruals and tax liabilities	-	-	4,307,300	4,307,300
Derivative financial instruments	-	-	105,383	105,383
Non-interest bearing loans	-	-	12,501	12,501
Interest bearing loans	6.264%	<u>369,517,357</u>	-	<u>369,517,357</u>
Total liabilities		<u>369,517,357</u>	<u>4,425,184</u>	<u>373,942,541</u>

Company At 31 March 2008	Weighted average effective interest rate %	1 to 3 months £	Non interest bearing £	Total £
<b>Assets</b>				
Investment in subsidiary	-	-	12,501	12,501
Cash and cash equivalents	-	<u>1</u>	-	<u>1</u>
Total assets		<u>1</u>	<u>12,501</u>	<u>12,502</u>
<b>Liabilities</b>				
Mon-interest bearing loans	-	-	<u>12,501</u>	<u>12,501</u>
Total liabilities		-	<u>12,500</u>	<u>12,501</u>

**DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**15. PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

<b>Group</b>	<b>Weighted average effective interest rate</b>	<b>1 to 3 months</b>	<b>Non interest bearing</b>	<b>Total</b>
<b>At 31 March 2007</b>	<b>%</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Assets</b>				
Trade and other receivables	-	-	4,005,218	4,005,218
Mortgage loans	6.526%	370,040,245	-	370,040,245
Derivative financial instruments	-	-	10,083,555	10,083,555
Cash and cash equivalents	-	<u>281,982</u>	<u>-</u>	<u>281,982</u>
<b>Total assets</b>		<u><u>370,322,227</u></u>	<u><u>14,088,773</u></u>	<u><u>384,411,000</u></u>
<b>Liabilities</b>				
Accruals and tax liabilities	-	-	4,074,128	4,074,128
Deferred tax liability	-	-	1,915,876	1,915,876
Non-interest bearing loans	-	-	12,501	12,501
Interest bearing loans	5.184%	<u>370,040,245</u>	<u>-</u>	<u>370,040,245</u>
<b>Total liabilities</b>		<u><u>370,040,245</u></u>	<u><u>6,002,505</u></u>	<u><u>376,042,750</u></u>

<b>Company</b>	<b>Weighted average effective interest rate</b>	<b>1 to 3 months</b>	<b>Non interest bearing</b>	<b>Total</b>
<b>At 31 March 2007</b>	<b>%</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Assets</b>				
Investment in subsidiary	-	-	12,501	12,501
Cash and cash equivalents	-	<u>1</u>	<u>-</u>	<u>1</u>
<b>Total assets</b>		<u><u>1</u></u>	<u><u>12,501</u></u>	<u><u>12,502</u></u>
<b>Liabilities</b>				
Mon-interest bearing loans	-	<u>-</u>	<u>12,501</u>	<u>12,501</u>
<b>Total liabilities</b>		<u><u>-</u></u>	<u><u>12,500</u></u>	<u><u>12,501</u></u>

## DECO 6 – UK LARGE LOAN 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 MARCH 2008

##### 16. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2008 Group £	2008 Company £	2007 Group £	2007 Company £
Interest rate swaps	<u>(105,383)</u>	<u>-</u>	<u>10,083,555</u>	<u>-</u>

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2008 was £369,517,821. On £95,000,000 of the notional principal, the fixed rate payable by the Group is 4.9315% and the floating rate receivable is 3 month LIBOR. On £103,610,021 of the notional principal, the fixed rate payable by the Group is 5.1400% and the floating rate receivable is 3 month LIBOR.

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

In relation to the repayment of the floating rate notes, the Group has identified a hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract. This arises because repayment of the floating rate notes is dependant on repayment of the mortgage loan, which in turn depends upon the lease payments and property sale proceeds arising from the property portfolio held by the chargors. However, the credit derivatives are regarded as closely related to the host contract and therefore do not require separation.

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

##### 17. RELATED PARTY TRANSACTIONS

The Group is a special-purpose group 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 and Mr J Traynor are employees of Wilmington Trust SP Services (London) Limited, and Mr M H Filer 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 March 2008 amounted to £9,499 (2007 £7,170). At the end of the year, an amount of £1,679 (2007 £1,645) was outstanding and included within current liabilities: trade and other payables.

During the year, accounting services amounting to £4,113 (2007 £6,463) were charged by Wilmington Trust SP Services (London) Limited. At 31 March 2008, an amount of £4,113 (2007 £4,113) was outstanding and disclosed within current liabilities: trade and other payables.

During the period ended 31 March 2006, Wilmington Trust SP Services (London) Limited granted an interest-free loan to the Company for £12,501. At 31 March 2008, £12,501 (2007 £12,501) was still outstanding and disclosed within 'Non interest-bearing loans: Other loans'.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**18. ULTIMATE PARENT UNDERTAKING**

Deco 6 – UK Large Loan 2 Holding Limited is a company registered in England and Wales

Wilmington Trust SP Services (London) Limited holds the entire share capital in the Company 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.