Company Registration Number 5990966

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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COMPANY INFORMATION

The board of directors	Mr Graham Cox (appointed on 31 August 2012) Mr Graham Hodgkin (appointed on 31 August 2012) Wilmington Trust SP Services (London) Limited (resigned on 31 August 2012) Mr M H Filer (resigned on 31 August 2012) Mr J Traynor (resigned on 31 August 2012)
Company secretary	Wilmington Trust SP Services (London) Limited (resigned on 31 August 2012) Deutsche Bank AG, London Branch (appointed on 31 August 2012)
Registered office	*Previously up to 31 August 2012* c/o Wilmington Trust SP Services (London) Limited Third Floor 1 King's Arms Yard London EC2R 7AF United Kingdom *From 31 August 2012 onwards* c/o Deutsche Bank AG, London Branch Winchester House Mailstop 428 1 Great Winchester Street London EC2N 2 DB United Kingdom
Auditor	Deloitte LLP London United Kingdom

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

The directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2012

PRINCIPAL ACTIVITIES
The Company is a special purpose company established in order to issue floating rate loan notes due January 2020 ("the loan notes"), to acquire the beneficial interest in a mortgage portfolio from Deutsche Bank AG, London Branch, ("the mortgage loans"), 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 19 December 2006 On 20 December 2006, the Company issued £444,387,935 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 2012, the Company made a net interest margin (net interest income divided by interest income) of 3 48% (2011 2 72%) As at the year end, the Company had net liabilities of £166,459,607 (2011 £67,395,004), as a result of the fair value liability on the derivative financial instruments totalling £39,382,673 (2011 £44,713,443) and the cumulative impairments to the mortgage loans of £127,130,262 (2011 £22,733,281)

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 £99,064,603 (2011 £10,875,640) after the profit on the financial derivative instrument of £5,330,769 (2011 loss of £7,990,334) and loan impairments of £104,396,981 (2011 £2,887,034) The directors have not recommended a dividend (2011 £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 Company's financial instruments, other than derivatives, comprise mortgage loans, cash and cash equivalents, loan notes and various receivables and payables that arise directly from its operations The main purpose of the interest bearing borrowings is to finance a mortgage portfolio acquired 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

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

FINANCIAL INSTRUMENTS (CONTINUED)

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 a mortgage loan to Mapeley Gamma totalling £217,136,058 (2011 £222,335,224) before impairment and will mature on 20 January 2017 At 31 December 2012, the total amount outstanding on the mortgage loans, before impairment provisions, was £382,964,360 (2011 £393,598,582) The mortgage loan portfolio consists of 12 loans secured over 47 properties (2011 12 loans secured over 47 properties)

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

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

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

Impairments charged during the year on mortgage loans were Mapeley Gamma £101,717,746 (2011 £nil), Starcham Limited £1,149,459 (2011 £1,520,577), CPI Retail Active Management £1,348,459 (2011 £1,302,205), The Mill £40,354 (2011 £1,464,203), Ubrique Holdings Ltd £448,280 (2011 £nil), Investco Estates Limited £2,479 (2011 £nil) and Wildmoor Northpoint Limited £2,213,003 (2011 £3,922,752 recorded as an impairment reversal)

Mapeley Gamma was placed into special servicing on 25 October 2012 due to a breach of the LTV covenant The property was valued on 1 August 2012 at £116,205,000 and the property value was considerably lower than the carrying value of the loan The impairment raised is based on the estimated value of the underlying commercial property collateral

The Starcham Limited, Ubrique Holdings Ltd and Investco Estates Limited loans are due to mature within twelve months from the Statement of Financial Position date, however the estimated value of the underlying properties are below the loan amounts and therefore an impairment has been raised for this potential shortfall

The Mill defaulted on its maturity date during the year ended 31 December 2012 whereas CPI retail active management and Wildmoor Northpoint Limited had defaulted in 2011 and 2010 respectively The estimated market values of the respective underlying properties are below their loan amounts and as such impairment was charged against their respective loans to account for the potential shortfalls

Chesterton Commercial (Beaconsfield) Ltd defaulted in October 2012

During the year, an impairment reversal of £2,522,799 (2011 charge of £2,522,799) was booked on the Chesterton (Commercial) Beaconsfield Limited loan An impairment charge of £2,522,799 was recognised in 2011, representing the difference between the estimated market valuation of the underlying property collateral in December 2011 and the loan outstanding Taking into account the changes in estimated market value of the underlying properties, the directors have estimated that the collateral value has increased in 2012 and, accordingly, have reversed the impairment provision by £2,522,799 This loan has subsequently been repaid in full on 28 January 2013

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

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 Company being unable, on a temporary basis, to meet its financial commitments On 19 November 2012, the liquidity facility for £24,422,071 was renewed for the period from 13 December 2012 to 12 December 2013 The directors expect this facility to be renewed annually Further discussion of the Company's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 12

An amount of £23,007,626 (2011 £nil) of the liquidity facility was drawn as at 31 December 2012 because of the repayment of the Chesterton Commercial (Beaconsfield) limited loan under the "Property Protection Shortfall" criteria as per clause 5 1 of the liquidity facility agreement On 29 January 2013, the liquidity facility amount drawn as at 31 December 2012 was returned to Danske Bank A/S (London Branch) as per clause 6 3 of the Liquidity facility agreement, which states that any amount drawn as a "Property Protection Drawing" should be repaid on the next distribution date

DIRECTORS

The directors, who served the Company during the year, were as follows

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

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

The directors confirm that

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

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

Signed by order of the directors

G Hodgkin

Director Graham Hodgkin

26 June 2013

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is 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 11 – UK CONDUIT 3 PLC

We have audited the financial statements of Deco 11 – UK Conduit 3 Plc for the year ended 31 December 2012 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 December 2012 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
26 June 2013

DECO 11 – UK CONDUIT 3 PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

Continuing operations	Notes	2012 £	2011 £
Interest income	2	**20,125,485**	20,554,453
Interest expense	3	**(19,424,644)**	(19,995,079)
Net interest income		**700,841**	559,374
Impairment charge of commercial mortgage loans	6	**(104,396,981)**	(2,887,034)
Fair value gain/(loss) on derivative financial instruments	13	**5,330,769**	(7,990,334)
Other operating expenses	4	**(698,830)**	(557,319)
		(99,765,042)	(11,434,687)
Loss before tax for the year		**(99,064,201)**	(10,875,313)
Income tax charge	5	**(402)**	(327)
Total loss after tax and comprehensive loss for the year		**(99,064,603)**	(10,875,640)

The notes on pages 12 to 24 form part of these financial statements

DECO 11 – UK CONDUIT 3 PLC

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Mortgage loans	6	**123,102,705**	350,815,956
Current assets			
Mortgage loans	6	**137,726,671**	24,744,325
Trade and other receivables	7	**3,672,558**	3,621,318
Cash and cash equivalents	8	**23,310,660**	46,160
		164,709,889	28,411,803
Total assets		**287,812,594**	379,227,759
Equity			
Share capital	9	**12,502**	12,502
Retained loss	9	**(166,472,109)**	(67,407,506)
Total shareholders' deficit	9	**(166,459,607)**	(67,395,004)
Non-current liabilities			
Loan notes	10	**249,932,610**	373,248,880
Total non-current liabilities		**249,932,610**	373,248,880
Current liabilities			
Loan notes	10	**137,726,671**	24,744,325
Interest payable on loan notes	10	**581,159**	932,149
Trade and other payables	11	**26,648,269**	2,983,549
Derivative financial instruments	13	**39,382,673**	44,713,443
Current tax liability		**819**	417
Total current liabilities		**204,339,591**	73,373,883
Total liabilities		**454,272,201**	446,622,763
Total equity and liabilities		**287,812,594**	379,227,759

These financial statements of Deco 11 – UK Conduit 3 Plc, Company Registration 5990966 on pages 7 to 23 were approved and authorised for issue by the directors on 26 June 2013 and are signed on their behalf by

Director Graham Hodgkin

The notes on pages 12 to 24 form part of these financial statements

DECO 11 – UK CONDUIT 3 PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Retained loss	Total equity
	£	£	£
Balance as at 1 January 2011	12,502	(56,531,866)	(56,519,364)
Loss for the year 31 December 2011	-	(10,875,640)	(10,875,640)
Other comprehensive income for the year	-	-	-
Balance at 31 December 2011	12,502	(67,407,506)	(67,395,004)

	Share capital	**Retained loss**	**Total equity**
	£	**£**	**£**
Balance as at 1 January 2012	**12,502**	**(67,407,506)**	**(67,395,004)**
Loss for the year 31 December 2012	-	**(99,064,603)**	**(99,064,603)**
Other comprehensive income for the year	-	-	-
Balance at 31 December 2012	**12,502**	**(166,472,109)**	**(166,459,607)**

The notes on pages 12 to 24 form part of these financial statements

DECO 11 – UK CONDUIT 3 PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Operating activities			
Loss before tax for the year		(99,064,201)	(10,875,313)
Adjustments for			
Fair value movement on derivative financial instruments		(5,330,769)	7,990,334
Impairment charge on commercial mortgage loans		104,396,981	2,887,034
Bank interest received		(17,152)	(495)
Decrease in trade and other receivables		(51,240)	(72,706)
Increase in trade and other payables		23,313,729	285,800
Net cash from operations		23,247,348	214,654
Returns on investments and servicing of finance			
Tax paid		-	(476)
Net cash from operating activities		23,247,348	214,178
Investing activities			
Bank interest received		17,152	495
Repayments of mortgage loans	6	10,333,924	5,493,949
Net cash from investing activities		10,351,076	5,494,444
Financing activities			
Repayments of loan notes	10	(10,333,924)	(5,794,773)
Net cash used in financing activities		(10,333,924)	(5,794,773)
Net increase/(decrease) in cash and cash equivalents		23,264,500	(86,151)
Cash and cash equivalents at beginning of year		46,160	132,311
Cash and cash equivalents at 31 December	8	23,310,660	46,160

Actual cash received and paid as interest income and interest expense (excluding class X interest) during the year was £20,057,093 (2011 £20,481,525) and £5,147,334 (2011 £5,883,266) respectively

As explained in the accounting policies on page 12, the cash is not freely available to be used

1 SIGNIFICANT ACCOUNTING POLICIES

Deco 11 – UK Conduit 3 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 December 2012

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

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 Director's 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 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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments
The Company's financial instruments comprise mortgage loans, cash and cash equivalents, 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

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 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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 agreed margin, generated by the mortgage loans in which the Company has purchased an interest, exceeds the administration costs of the mortgage loans

Value added tax
Value added tax is not recoverable by the Company and is included within 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 0 01 percent of the interest received from mortgage loans during the year, that is, the interest income recognised in the Statement of Comprehensive Income for the year

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

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

Name of new Standards/amendments	Effective date
IFRS 9 – Financial Instruments	Accounting periods beginning on or after 1 January 2015
IFRS 11 – Joint Arrangements	Accounting periods beginning on or after 1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	Accounting periods beginning on or after 1 January 2013
IFRS 13 – Fair Value Measurement	Accounting periods beginning on or after 1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012) Investment Entities	Accounting periods beginning on or after 1 January 2014
Annual improvements to IFRSs 2009 – 2011 Cycle	Accounting periods beginning on or after 1 January 2013
Amendments to IAS 32 (Dec 2011) Offsetting Financial Assets and Financial Liabilities	Accounting periods beginning on or after 1 January 2014
Amendments to IFRS 7 (Dec 2011) Disclosures – Offsetting Financial Assets and Financial Liabilities	Accounting periods beginning on or after 1 January 2013

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

Standards issued but not adopted (continued)
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 loan 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**

	2012	2011
	£	£
Income from mortgage loans	20,108,333	20,553,958
Bank interest income	17,152	495
	20,125,485	20,554,453

3. **INTEREST EXPENSE**

	2012	2011
	£	£
Interest on loan notes	4,796,344	4,860,019
Net swap interest payable	12,476,210	13,434,367
Deferred consideration	2,152,090	1,700,693
	19,424,644	19,995,079

4 **OTHER OPERATING EXPENSES**

	2012	2011
	£	£
Fees payable to the Company's auditor for the audit of the Company's annual accounts	30,000	12,316
Fees payable to the Company's auditor for other services		
- tax services	18,386	-
Administration and cash management fees	548,636	501,419
Corporate services fee	11,156	10,792
Accountancy fee	11,567	4,113
Other expenses	79,085	28,679
	698,830	557,319

Directors' emoluments during the year amounted to £622 (2011 £Nil) for their services as directors to the Company during the year The directors had no material interest in any contract of significance in relation to the business of the Company (2011 £nil) The Company did not have any employees in either the current year or prior year

5. **INCOME TAX CHARGE**
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 Company which is 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 the 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

5. INCOME TAX CHARGE (CONTINUED)

	2012	2011
Current tax	£	£
Corporation tax charge for the year at a rate of 20% (2011 20 25%)	402	327
Total income tax charge in statement of comprehensive income	402	327

	2012	2011
Reconciliation of total tax charge	£	£
Loss before tax multiplied by the standard rate of corporation tax in the UK of 20% (2011 20 25%)	(19,812,840)	(2,283,816)
Adjustments on fair value movement	19,813,242	2,202,667
Tax charge for the year	402	416
Adjustment for prior year charge	-	(89)
Total tax charge reported in the statement of comprehensive income	402	327

6. MORTGAGE LOANS

	2012	2011
	£	£
At 1 January	375,560,281	383,941,264
Redemptions	(10,333,924)	(5,493,949)
Movement in the impairment provision during the year	(104,396,981)	(2,887,034)
At 31 December	260,829,376	375,560,281

The movement of the impairment provision can be analysed as follows

	2012	2011
At 1 January	(22,733,281)	(19,846,246)
Provisions made during the year	(106,919,780)	(2,114,806)
Reversal during the year	2,522,799	3,922,751
Impairment written-off	-	(4,694,980)
At 31 December	(127,130,261)	(22,733,281)

The balance can be analysed as follows

	2012	2011
Current assets	137,726,671	24,744,325
Non-current assets	123,102,705	350,815,956
	260,829,376	375,560,281

The mortgage loans are classified as "loans and receivables" The mortgage loans are due for repayment from July 2013 to January 2017 At 31 December 2012, the fixed rate of interest on the mortgage loans ranged from 3 92% to 6 53% (2011 4 95% to 6 53%) The mortgage loans are secured over commercial properties Deutsche Bank AG, London Branch acts as security trustee to the loans

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

Impairments charged during the year on mortgage loans were Mapeley Gamma £101,717,746 (2011 £nil), Starcham Limited £1,149,459 (2011 £1,520,577), CPI Retail Active Management £1,348,459 (2011 £1,302,205), The Mill £40,354 (2011 £1,464,203), Ubrique Holdings Ltd £448,280 (2011 £nil), Investco Estates Limited £2,479 (2011 £nil) and Wildmoor Northpoint Limited £2,213,003 (2011 £3,922,752 recorded as an impairment reversal)

6. MORTGAGE LOANS (CONTINUED)

Mapeley Gamma was placed into special servicing on 25 October 2012 due to a breach of the LTV covenant The property was valued on 1 August 2012 at £116,205,000 and the property value was considerably lower than the carrying value of the loan The impairment raised is based on the estimated value of the underlying commercial property collateral

The Starcham Limited, Ubrique Holdings Ltd and Investco Estates Limited loans are due to mature within twelve months from the Statement of Financial Position date, however the estimated value of the underlying properties are below the loan amounts and therefore an impairment has been raised for this potential shortfall

The Mill defaulted on its maturity date during the year ended 31 December 2012 whereas CPI retail active management and Wildmoor Northpoint Limited had defaulted in 2011 and 2010 respectively The estimated market values of the respective underlying properties are below their loan amounts and as such impairment was charged against their respective loans to account for the potential shortfalls

Chesterton Commercial (Beaconsfield) Ltd defaulted in October 2012

During the year, an impairment reversal of £2,522,799 (2011 charge of £2,522,799) was booked on the Chesterton (Commercial) Beaconsfield Limited loan An impairment charge of £2,522,799 was recognised in 2011, representing the difference between the estimated market valuation of the underlying property collateral in December 2011 and the loan outstanding Taking into account the changes in estimated market value of the underlying properties, the directors have estimated that the collateral value has increased in 2012 and, accordingly, have reversed the impairment provision by £2,522,799 This loan has subsequently been repaid in full on 28 January 2013

7. TRADE AND OTHER RECEIVABLES

	2012	2011
	£	£
Amounts owed by parent undertaking	**2,523**	2,523
Prepayments and accrued income	**3,670,035**	3,618,795
	3,672,558	3,621,318

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

8. CASH AND CASH EQUIVALENTS

	2012	2011
	£	£
Cash and cash equivalents	**23,310,660**	46,160

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

9. TOTAL EQUITY

	Issued capital	**Retained losses**	**Total**
	£	**£**	**£**
At 1 January 2012	12,502	(67,407,506)	(67,395,004)
Loss for the year	-	**(99,064,603)**	**(99,064,603)**
Balance at 31 December 2012	**12,502**	**(166,472,109)**	**(166,459,607)**

9. TOTAL EQUITY (CONTINUED)

There are 50,000 authorised ordinary shares of £1 each The issued share capital comprises two fully paid £1 shares, and 49,998 ordinary shares quarter 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 31 August 2012 The remaining 49,999 shares are held by Deco 11 – UK Conduit 3 Holding Limited

10. LOAN NOTES

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

	2012	2011
	£	£
At 1 January	**397,993,205**	403,787,978
Redemptions	**(10,333,924)**	(5,794,773)
	387,659,281	397,993,205
Non-current liabilities		
Loan notes	**249,932,610**	373,248,880
	249,932,610	373,248,880
Current liabilities		
Loan notes	**137,726,671**	24,744,325
Interest payable on loan notes	**581,159**	932,149
	138,307,830	25,676,474

On 20 December 2006, an agreement was entered into with Danske Bank A/S (London Branch) for the provision of a liquidity facility for the Company The facility is in place to allow the Company to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loans At the Statement of Financial Position date, the limit on this facility was £24,422,071 (2011 £24,422,071) A commitment fee of 0 15% per annum is charged on the undrawn amount of the liquidity facility commitment

An amount of £23,007,626 (2011 £nil) of liquidity facility was drawn as at 31 December 2012 because of the repayment of the Chesterton Commercial (Beaconsfield) limited loan under the "Property Protection Shortfall" criteria as per clause 5 1 of the liquidity facility agreement The loan notes are secured by way of fixed and floating charges over the Company's assets

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

2012	**Total**	**Less than 1 year**	**1-2 years**	**2-5 years**
	£	**£**	**£**	**£**
Liabilities				
Loan notes due 2020	**387,659,281**	**137,726,671**	**7,384,094**	**242,548,516**
Interest payable	**581,159**	**581,159**	**-**	**-**
	388,240,440	**138,307,830**	**7,384,094**	**242,548,516**

2011	Total	Less than 1 year	1-2 years	2-5 years
	£	£	£	£
Liabilities				
Loan notes due 2020	397,993,205	24,744,325	105,382,527	267,866,353
Interest payable	932,149	932,149	-	-
	398,925,354	25,676,474	105,382,527	267,866,353

The loan notes are denominated in Pound Sterling

10. LOAN NOTES (CONTINUED)

On 20 December 2006, the Company issued £220,000,000 Class A-1A notes due January 2020, £74,500,000 Class A-1B notes due January 2020, £45,500,000 Class A-2 notes due January 2020, £27,000,000 Class B notes due January 2020, £37,000,000 Class C notes due January 2020, £29,000,000 Class D notes due January 2020, £6,000,000 Class E notes due January 2020 and £5,387,935 Class F notes due January 2020 Interest on the Class A-1A notes is payable at a rate of 3 month LIBOR plus 0 19% Interest on the Class A-1B notes is payable at a rate of 3 month LIBOR plus 0 23% Interest on the Class A-2 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 33% Interest on the Class C notes is payable at a rate of 3 month LIBOR plus 0 50% Interest on the Class D notes is payable at a rate of 3 month LIBOR plus 0 85% Interest on the Class E notes is payable at a rate of 3 month LIBOR plus 1 25% Interest on the Class F notes is payable at a rate of 3 month LIBOR plus 3 40%

At the Statement of Financial Position date £171,909,995 (2011 £180,429,810) in respect of the Class A-1A notes was outstanding, £70,742,442 (2011 £71,622,134) in respect of Class A-1B notes, £43,205,199 (2011 £43,742,461) in respect of Class A-2 notes, £26,191,835 (2011 £26,331,202) in respect of Class B notes, £36,124,333 (2011 £36,243,791) in respect of the Class C notes, £28,229,956 (2011 £28,349,413) in respect of Class D notes, £5,920,596 (2011 £5,920,596) in respect of E notes and £5,334,820 (2011 £5,353,694) in respect of Class F notes The loan notes are secured by way of a fixed and floating charge over the assets of the Company The proceeds of the loan notes were used by the Company to acquire the mortgage loans from Deutsche Bank AG in accordance with the terms of the securitisation documents

The contractual, undiscounted interest payable on the loan notes to maturity at 31 December is as follows

	Less than one year £	1 year – 5 years £	Total £
31 December 2012	**4,322,963**	**10,301,547**	**14,624,510**
31 December 2011	19,512,037	57,929,951	77,441,988

11 TRADE AND OTHER PAYABLES

	2012 £	2011 £
Current liabilities		
Accruals and deferred income	**2,517,175**	2,613,649
Liquidity facility loan	**23,007,626**	-
Deferred consideration	**1,123,468**	369,900
	26,648,269	2,983,549

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

12. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Directors' Report on pages 2 to 4

The Company's financial instruments, other than derivatives, comprise mortgage loans, cash and cash equivalents, loan notes and various receivables and payables that arise directly from its operations The 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

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The table below provide details of the fair value of financial assets and liabilities not carried at fair value through profit and loss

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

	Notes	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Mortgage loans	6	260,829,376	244,990,412	375,560,281	285,238,674
Trade and other receivables	7	3,672,558	3,672,558	3,621,318	3,621,318
Cash and cash equivalents	8	23,310,660	23,310,660	46,160	46,160
		287,812,594	271,973,630	379,227,759	288,906,152
Derivative financial instruments	13	39,382,673	39,382,673	44,713,443	44,713,443
Loan notes	10	387,659,281	205,607,738	397,993,205	234,518,708
Interest payable on loan notes	10	581,159	581,159	932,149	932,149
Trade and other payables	11	26,648,269	26,648,269	2,983,549	2,983,549
Current tax liability		819	819	417	417
		454,272,201	272,220,658	446,622,763	283,148,266

Fair value of mortgage loans is 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

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

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value hierarchy (continued)

As at 31 December 2012 Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	**39,382,673**	**-**	**39,382,673**	**-**

As at 31 December 2011 Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	44,713,443	-	44,713,443	-

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, London Branch 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 December 2012	Weighted average effective interest rate %	Floating £	Non-interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	3,672,558	-	3,672,558
Mortgage loans	5.589%	-	-	260,829,376	260,829,376
Cash and cash equivalents	-	23,310,660	-	-	23,310,660
Total assets		23,310,660	3,672,558	260,829,376	287,812,594
Liabilities					
Trade and other payables and tax liabilities	-	-	26,649,088	-	26,649,088
Derivative financial instruments	-	39,382,673	-	-	39,382,673
Loan notes	1.230%	387,659,281	-	-	387,659,281
Total liabilities		427,041,954	26,649,088	-	453,691,042

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Effective interest rates and repricing analysis (continued)

At 31 December 2011	Weighted average effective interest rate %	Floating £	Non-interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	3,621,318	-	3,621,318
Mortgage loans	5 105%	-	-	375,560,281	375,560,281
Cash and cash equivalents	-	46,160	-	-	46,160
Total assets		46,160	3,621,318	375,560,281	379,227,759
Liabilities					
Trade and other payables and tax liabilities	-	-	3,916,116	-	3,916,116
Derivative financial instruments	-	44,713,443	-	-	44,713,443
Loan notes	1 170%	397,993,205	-	-	397,993,205
Total liabilities		442,706,648	3,916,116	-	446,622,764

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 December 2012 and 2011 were 148 6% and 116 9% 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 Danske Bank A/S (London Branch) on 20 December 2006 As well as covering delays in the payment of interest on the mortgage loans, the liquidity facility agreement will also permit the Company to make drawings to pay certain expenses from time to time of the Company

The base currency amount of the liquidity facility loan shall not at any time exceed £24,422,071 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 An amount of £23,007,626 (2011 £nil) of liquidity facility was drawn as at 31 December 2012 On 19 November 2012, the liquidity facility for £24,422,071 was renewed for the period from 13 December 2012 to 12 December 2013 The directors expect this facility to be renewed annually

Moreover, the maturity of the loan notes is designed to match the maturity of the mortgage loans and hence, there are deemed to be limited liquidity risks facing the Company

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

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk on the mortgage loans arises where the mortgage loans are secured on underlying commercial properties The maximum exposure to credit risk is the Statement of Financial Position amount The largest single exposure to credit risk is the Mapeley Gamma mortgage loan totalling £115,418,312 (2011 £222,335,224) This gives rise to a relatively high concentration risk of 44% (2011 59%) as at year end The Company monitors the performance of the loans on a regular basis and appoints third party specialist servicers, where required, to help maximise recoveries in the event of breaches or defaults on the loans Hatfield Philips International Ltd is the Special Servicer with the responsibility of maintaining and increasing the value of the Mapeley Gamma properties

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

	31 December 2012	31 December 2011
	£	£
Neither past due nor impaired	36,249,090	301,274,050
Past due but not impaired	5,598,083	-
Impaired	341,417,485	92,324,532
	383,264,658	393,598,582
Less allowance for impairment	(122,435,282)	(18,038,301)
	260,829,376	375,560,281

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2012	2011
	£	£
Interest rate swaps fair value at start of year	(44,713,442)	(36,723,108)
Change in fair value	5,330,769	(7,990,334)
Interest rate swaps fair value at end of year	(39,382,673)	(44,713,442)

The notional principal amount of all the outstanding interest rate swap contracts at 31 December 2012 was £314,186,367 (2011 £345,430,621) The Company pays a fixed rate ranging from 4 36% to 5 25% (2011 from 4 00% to 5 25%) and receives 3-month LIBOR (2011 3-month LIBOR)

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 loan 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) consistent with 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

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

13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2012	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
	£	£	£	£	£
	39,382,673	39,082,708	3,362,781	8,516,420	27,203,507

As at 31 December 2011	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
	£	£	£	£	£
	44,713,442	42,936,746	647,880	8,582,050	33,706,816

14. RELATED PARTY TRANSACTIONS

The Company is a special-purpose vehicle controlled by its Board of directors On 31 August 2012, Wilmington Trust SP Services (London) Limited, Mr M H Filer and Mr J Traynor resigned as directors of the Company On the same date, Mr Graham Cox and Mr Graham Hodgkin were appointed directors of the Company Directors' emoluments during the year amounted to £622 (2011 £Nil) for their services as directors to the Company during the year The Company paid corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received The fees payable to them for their services for the year ended 31 December 2012 amounted to £11,156 (2011 £10,792) including irrecoverable VAT with £nil (2011 £6,024) still unpaid at year end

15. ULTIMATE PARENT UNDERTAKING

Deco 11 – UK Conduit 3 Plc is a company incorporated in the United Kingdom and registered in England and Wales

Deco 11 – UK Conduit 3 Holding Limited holds 49,999 shares in the Company Wilmington Trust SP Services (London) Limited holds one share in Deco 11 – UK Conduit 3 Plc under a declaration of trust for charitable purposes The one share held by Wilmington Trust SP Services (London) Limited was transferred to Castlewood CS Holdings Limited on 31 August 2012

The directors consider that Deco 11 – UK Conduit 3 Holding Limited is the ultimate controlling entity of the Company by virtue of its shareholding in the Company

16 SUBSEQUENT EVENTS

On 29 January 2013, the £21,761,083 of the liquidity facility amount drawn as at 31 December 2012 was returned to Danske Bank A/S (London Branch) as per clause 6 3 of the Liquidity facility agreement, which states that any amount drawn as a "Property Protection Drawing" should be repaid on the next distribution date

On 28 January 2013, Chesterton Commercial (Beasconsfield) Limited loan was repaid in full amounting to £5,598,083 which represented the whole gross loan amount

On 15 April 2013, there was a final recovery amount of £1,787,226 as the Mill property was sold for £1,860,000 and remaining gross loan of £1,504,558 was written down This loss was fully provided for at year end