

Company Registration Number 05990966

DECO 11 – UK CONDUIT 3 PLC
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 26 DECEMBER 2021

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DECO 11 – UK CONDUIT 3 PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 26 DECEMBER 2021

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DECO 11 – UK CONDUIT 3 PLC

COMPANY INFORMATION

The board of directors	Mr Graham Cox Mr Graham Hodgkin
Company secretary	Sunil Masson
Administrator	Vistra (UK) Ltd 3 rd Floor 11-12 St. James's Square Suite 2 London England SW1Y 4LB
Registered office	Level 8 Central Square 29 Wellington Street Leeds West Yorkshire LS1 4DL
Auditor	Mercer & Hole 21 Lombard Street EC3V 9AH London United Kingdom
Arranger	Deutsche Bank AG Winchester House, 1 Great Winchester Street, EC2N 2DB London United Kingdom

DECO 11 – UK CONDUIT 3 PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 26 DECEMBER 2021

The directors (the “Directors”) present their strategic report together with the audited financial statements of Deco 11 – UK Conduit 3 Plc (the “Company” or “Issuer”) for the year ended 26 December 2021.

REVIEW OF THE BUSINESS

The Company was incorporated as a public company with limited liability on 7 November 2006 under the laws of England and Wales. The Company was established as a special purpose Company for the purposes of issuing floating rate loan notes (the “loan notes”) due January 2020. The loan notes comprised Class A-1A notes, Class A-1B notes, Class A-2 notes, Class B notes, Class C notes, Class D notes, Class E notes and Class F notes with Class A-1A notes bearing the highest ranking in priority. On 20 December 2006, the Company issued £444,387,935 loan notes in accordance with the Offering Circular dated 19 December 2006. On 27 April 2020, the Class A-1A notes were fully redeemed and Class A-1B being partly redeemed as disclosed in Note 12.

The Company used the proceeds from the issue of these loan notes to acquire the beneficial interest in a commercial mortgage portfolio (the “mortgage loans”) from Deutsche Bank AG, London Branch (the “Arranger”), 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.

The loan notes are listed on the Irish Stock Exchange.

In October 2019, Solutus Advisors Ltd (the “Special Servicer”) was approached by a significant majority of noteholders who expressed their concerns, given the current political landscape, relating to the macro-economic position of the UK and the prospects of UK commercial real estate values. The noteholders indicated a desire for a quicker workout compared to the existing arrangement. As a result of the above events, a Final Recovery Determination was notified on 11 February 2020 in respect of the Mapeley Gamma Loan, the CPI Retail Active Management Loan and the Wildmoor Northpoint Ltd Loan (the “Loans”) following a discounted pay off (“DPO”) of the properties backing the Loans.

£763,126.93 (the “Reserved Amount”) continues to be held in the Issuer Transaction Account in respect of amounts claimed by the Special Servicer as a Liquidation Fee. The Issuer and the Special Servicer have corresponded on the issue of whether or not a Liquidation Fee is, in fact, payable to the Special Servicer pursuant to the provisions of the Servicing Agreement. The Issuer has not, to date, agreed that a Liquidation Fee is payable as claimed by the Special Servicer. Pending a resolution, the Reserved Amount will continue to be held in the Issuer Transaction Account.

In addition, certain beneficial holders of the most senior class of Notes currently outstanding have informed the Issuer that there are grounds for believing the Loans were discharged by transactions involving affiliates of the Special Servicer at a material undervalue and that they have made their final decision that they intend to instruct the Issuer Security Trustee to enforce the security under the Transaction Documents in order to ensure that these matters are investigated fully and that noteholders suffer no material losses as a result of them. While the Issuer is not aware of the specific nature of any directions to be given by those Noteholders in connection with enforcement of such security, it is understood that the security capable of being enforced would include the Issuer’s rights in respect of the amount claimed by the Special Servicer as the Liquidation Fee (as referred to in the Issuer’s notice to Noteholders dated 7 December 2020).

Discussions in relation to these matters remain ongoing.

All the Company’s mortgage loans were derecognised on 10 February 2020 and the Company has since ceased trading. The Directors have assessed the likelihood of whether the Company will be able to continue trading for at least 12 months from the date of signing of the financial statements and consequently, they have prepared the financial statements on a basis other than going concern. The Company entered administrative receivership on 10 June 2022.

RESULTS AND PERFORMANCE

The results of the Company for the year, as set out on page 15, show a loss on ordinary activities before tax of £1,354,714 (2020: £2,967,425). The loss was primarily due to the interest expense of £816,729 (2020: £1,707,615). The Company had a shareholder’s deficit of £163,989,130 (2020: £162,634,416) as at 26 December 2021.

DECO 11 – UK CONDUIT 3 PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

STRATEGY

The principal activity of the Company was the issue of loan notes. The Company issued loan notes to fund the acquisition of beneficial interest in the mortgage loans. On 10 February 2020, all the Company's mortgage loans were derecognised and that these loans have been discharged. Accordingly, since the principal activity of the Company is no longer applicable, the Company has since ceased trading. As such, the Directors have the intention of liquidating the Company in the foreseeable future and accordingly have prepared the financial statements on a basis other than going concern.

The principal risks arising from the Company's financial instruments (both assets and liabilities) were credit risk, interest rate risk, refinancing risk and liquidity risk.

KEY PERFORMANCE INDICATORS ('KPIs')

The key performance indicator of the business is considered to be the net interest margin. During the year, the Company had a negative net interest margin (net interest income divided by interest income) of 142.21% (2020: 1.19%). The negative interest margin is mainly due to significantly lower interest income during the year.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

As the COVID-19 coronavirus pandemic continues, the impacts and risks for the financial sector kept changing. COVID-19 recovery is uneven globally and is presenting a variety of challenges and risks from economic uncertainty to changes in consumer demand, disrupted supply chains and staff shortages, new hybrid working patterns, the ending of government support packages and increased merger and acquisitions activity. Businesses are experiencing conditions often associated with a general economic downturn. This includes dealing with lost revenue, increasing inflation rates, disrupted supply chains, financial market volatility, deteriorating credit, liquidity concerns and further government intervention. The Directors do not expect COVID-19 to affect the performance of the Company as all the mortgage loans were disposed and accordingly, derecognised in 2020.

The risk of the impact of climate change is expected to be minimal for the Company as all the Company's mortgage loans were derecognised in 2020. Therefore, the Directors do not consider climate risk to be a principal risk for the Company and there is no policy for managing such risk.

The Company's financial instruments comprise of 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 was to finance mortgage loans acquired from the Arranger.

On 3 February 2020, a DPO was completed for the Loans. The Special Servicer received completion proceeds on 4 February 2020. Following the repayment of the last mortgage loans, it is expected that no further cash will be made available to the Company.

The Board manages risks arising on the Company's financial instruments and a discussion regarding the approach to financial instruments is set out in Note 3 (Significant accounting policies) and in Note 14 (Financial risk management).

Currency risk

The Company is exposed to foreign currency risk due to the retranslation of some liabilities denominated in foreign currency. However, the exposure is not expected to be significant.

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's major exposure to interest rate risk related to the mortgage loans and loan notes. However, given that all the Company's mortgage loans have been redeemed in 2020, the Company is not expected to receive further income from the mortgage loans to pay the noteholders. As such, based on this perspective, there is no significant exposure to interest rate risk.

DECO 11 – UK CONDUIT 3 PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

Credit risk

The principal credit risk to the Company was that the borrowers will not be able to meet their obligations as they fall due.

The maximum exposure to credit risk is the Statement of Financial Position amount. As at year end, there is no significant exposure to credit risk, given that all of the Company's mortgage loans were derecognised in 2020.

Impairment

The Company recognises an allowance for expected credit losses (ECLs) for a financial asset or portfolio of financial asset not held at fair value through profit or loss. Under IFRS 9 an entity is required to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition. Under the IFRS 9 ECL model, the change in credit risk should be based on the risk of default and not changes in the amount of ECL which may be expected on a financial instrument. Further information on ECL is provided in Note 3.

Following the redemption of mortgage loans in 2020, the principal activity of the Company is no longer applicable and that the Company has since ceased trading. Therefore, the Directors have the intention of liquidating the Company in the foreseeable future.

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. Following the redemption of loans in 2020, the Company is not expected to receive further income from the mortgage loans to pay the noteholders. Accordingly, the Company is no longer exposed to refinancing risk.

In the event of the loan notes not being able to be fully repaid, the loan notes will not be written down because the Company is unable to repay them. This would be the case only if the Post Enforcement Call Option ("PECO") agreement is being triggered and ultimately, the loan notes would be released.

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires each Director of a Company to act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members, and in doing so have regard to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

Corporate governance

The Directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

DECO 11 – UK CONDUIT 3 PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

Corporate governance (continued)

Due to the nature of the securities which have been issued on the Irish Stock Exchange, the Directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the Disclosure and Transparency Rules (DTR) 7.1 audit committees and 7.2 corporate governance statement with the exception of DTR 7.2.5, as requiring description of features of the internal control and risk management system. The Directors are therefore satisfied that there is no requirement for an audit committee, or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement. An audit committee would not be appropriate for the Company because the Company is an issuer of mortgage loans and all activities of the Company are governed by the transaction documents which were predetermined at the time of issue.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. *The financial position of the Company, its cash flows, liquidity position and borrowing facilities* are set out in the financial statements. In addition, notes 3 and 14 to the financial statements, include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Company has net liabilities of £163,989,130 (2020: £162,634,416) as a result of accumulated impairments of £159,158,011 (2020: £159,158,011) on the mortgage loans. However, the terms of the loan notes are limited recourse and therefore the Company is only obliged to repay the loan notes to the extent that the Company receives cash from the mortgage loans. The noteholders will therefore ultimately bear the Company's deficits on maturity of the loan notes.

In October 2019, the Special Servicer was approached by a significant majority of noteholders who expressed their concerns, given the current political landscape, relating to the macro-economic position of the UK and the prospects of UK commercial real estate values.

On 11 February 2020, a Final Recovery Determination was notified in respect of the Loans following a discounted pay off of the properties backing the Loans.

£763,126.93 (the "Reserved Amount") continues to be held in the Issuer Transaction Account in respect of amounts claimed by the Special Servicer as a Liquidation Fee. The Issuer and the Special Servicer have corresponded on the issue of whether or not a Liquidation Fee is, in fact, payable to the Special Servicer pursuant to the provisions of the Servicing Agreement. The Issuer has not, to date, agreed that a Liquidation Fee is payable as claimed by the Special Servicer. Pending a resolution, the Reserved Amount will continue to be held in the Issuer Transaction Account.

In addition, certain beneficial holders of the most senior class of Notes currently outstanding have informed the Issuer that there are grounds for believing the Loans were discharged by transactions involving affiliates of the Special Servicer at a material undervalue and that they have made their final decision that they intend to instruct the Issuer Security Trustee to enforce the security under the Transaction Documents in order to ensure that these matters are investigated fully and that noteholders suffer no material losses as a result of them. While the Issuer is not aware of the specific nature of any directions to be given by those Noteholders in connection with enforcement of such security, it is understood that the security capable of being enforced would include the Issuer's rights in respect of the amount claimed by the Special Servicer as the Liquidation Fee (as referred to in the Issuer's notice to Noteholders dated 7 December 2020). Discussions in relation to these matters remain ongoing.

On 10 February 2020, all the Company's mortgage loans have been derecognised. Accordingly, since the principal activity of the Company is no longer applicable, the Company has since ceased trading. As such, the Directors have the intention of liquidating the Company in the foreseeable future and accordingly have prepared the financial statements on a basis other than going concern. As at 26 December 2021, all the Company's assets and liabilities have been disclosed as current in the financial statements. *The fair value of the remaining assets, being short term in nature, approximates their carrying value.* The Company is not expected to receive further income from the Loans to pay the noteholders.

DECO 11 – UK CONDUIT 3 PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

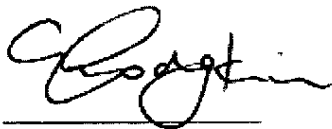
Going concern (continued)

COVID-19 Global Pandemic

The Directors have considered the impact of COVID-19 on the Company and note that since the Company's principal activity is no longer applicable, they believe that the Company is not directly impacted.

The Company entered administrative receivership on 10 June 2022.

Signed on behalf of the Board



Graham Hodgkin
Director

for and on behalf of Deco 11 – UK Conduit 3 Plc

23rd June 2022

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 26 DECEMBER 2021

The Directors have the pleasure in presenting their report and the audited financial statements of the Company for the year ended 26 December 2021. For the Directors' disclosures in relation to going concern and financial risks management objectives and policies and uncertainties, please refer to the Strategic Report.

PRINCIPAL ACTIVITIES

The Company is a special purpose company and was established in order to issue floating rate loan notes due January 2021 ("the loan notes"), to acquire the beneficial interest in mortgage loans from the Arranger 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. In 2020, all the Company's mortgage loans were derecognised and accordingly, the Company used the sales proceeds to make a final distribution to the noteholders. Therefore, the Company is not expected to receive further income from the mortgage loans to pay the noteholders. Since the principal activity of the Company is no longer applicable, the Company has ceased trading. As such, the Directors have the intention of liquidating the Company in the foreseeable future.

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 £1,354,714 (2020: £2,967,425). The Directors have not recommended a dividend for the year (2020: £Nil).

FUTURE DEVELOPMENTS

As described in the Going Concern note, the Company has ceased operations following the recovery of funds on the sale of collateral. The Loans were eventually repaid on 4 February 2020 from the proceeds of the collateral. The Company has now ceased trading. For further information, please refer to Note 17 of the financial statements.

THIRD PARTY INDEMNITY PROVISIONS

During the year and at the date of the approval of the Directors' report, there were no qualifying third-party indemnity provisions in the financial statements.

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 noteholders. Principal and interest are repaid quarterly in accordance with the agreements in place. The Company does not follow any other code or standard on payment practice.

CAPITAL STRUCTURE

The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006 (the "Act") for its share capital. The Company has not breached the minimum requirement.

SUBSEQUENT EVENTS

The subsequent events are disclosed in Note 17 of the financial statements.

DIRECTORS

The Directors, who served the Company during the year and subsequently, were as follows:

Mr Graham Cox
Mr Graham Hodgkin

SECRETARY

The secretary, who served the Company during the year and subsequently, was Sunil Masson.

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that:


- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the Directors 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 Act.

INDEPENDENT AUDITOR

The Directors have conducted a qualified selection procedure in accordance with the Statutory and Third Country Auditors Regulations 2016 for the auditor of the Company. During the year ended 26 December 2021, Mercer & Hole (2020: Deloitte LLP) were appointed as the independent auditors of the Company.

Approved by and signed on behalf of the Board



Graham Hodgkin
Director

23rd June 2022

DECO 11 – UK CONDUIT 3 PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 26 DECEMBER 2021

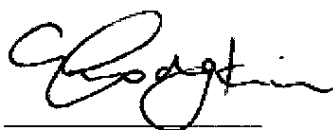
The Directors are responsible for preparing the Strategic Report, Directors' Report and the audited financial statements in accordance with applicable law and regulations.

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) in conformity with the requirements of the Act. 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 financial year. In preparing these financial statements, the Directors are 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 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 Act. 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.

Approved by and signed on behalf of the Board



Graham Hodgkin
Director

23rd June 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO 11 - UK CONDUIT 3 PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Deco 11 – UK Conduit 3 P.L.C. (the 'company') for the year ended 26 December 2021 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements of the company:

- give a true and fair view of the state of the company's affairs as at 26 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – financial statements prepared other than on a going concern basis

We draw attention to note 1 in the financial statements, which indicated that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

Audit scope

- Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed by the audit engagement team.

Materiality

- Overall materiality: £47,000 (2020: £64,000) based on 1% of Total Assets.
- Performance materiality: £35,250 (2020: £44,800).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO 11 - UK CONDUIT 3 PLC (CONTINUED)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined there is no key audit matter to be communicated in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which they operate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£47,000 (2020: £64,000).
How we determined it	1% of Total Assets
Rationale for benchmark applied	The company has ceased trading and has significant net liabilities relating to the floating rate loan notes issued to acquire the beneficial interest in the commercial mortgage portfolio. A net asset/liability measure is not deemed to be appropriate given the relative size of the liabilities in the context of the financial statements. Therefore, total assets was used and this is a generally accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £35,250 for the financial statements.

In determining the performance materiality, we considered a number of factors risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £2,250 (2020: £1,300) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO 11 - UK CONDUIT 3 PLC (CONTINUED)

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

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

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

Responsibilities for the financial statements and the audit

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO 11 - UK CONDUIT 3 PLC (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which they operate and considered the risk of acts by the company that were contrary to applicable laws and regulations, including fraud. These included, but were not limited to, the Companies Act 2006, Listing Rules, and Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296).

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements and the financial report (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate entries including journals to overstate revenue or understate expenditure.

Audit procedures performed by the engagement team included:

- discussions with management, including considerations of known or suspected instances of non-compliance with laws and regulations and fraud;
- gaining an understanding of management's controls designed to prevent and detect irregularities; and
- identifying and testing journal entries.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other Matters the auditor is required to address

We have provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO 11 - UK CONDUIT 3 PLC
(CONTINUED)**

Use of our report

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.



**Andrew Crook (Senior Statutory Auditor)
for and on behalf of Mercer & Hole
Chartered Accountants
Statutory Auditor**

21 Lombard Street
London
EC3V 9AH

Date: 23 June 2022

DECO 11 – UK CONDUIT 3 PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 26 DECEMBER 2021

		Year ended 26 December 2021	Year ended 26 December 2020
Continuing operations	Notes	£	£
Interest income	4	5,703	779,318
Interest expense	5	<u>(816,729)</u>	<u>(1,707,615)</u>
Net interest expense		<u>(811,026)</u>	<u>(928,297)</u>
Impairment loss on commercial mortgage loans		-	(734,241)
Other operating expenses	6	<u>(543,688)</u>	<u>(1,304,887)</u>
		<u>(543,688)</u>	<u>(2,039,128)</u>
Loss before tax for the year		(1,354,714)	(2,967,425)
Income tax charge	7	<u>-</u>	<u>-</u>
Total loss after tax		<u>(1,354,714)</u>	<u>(2,967,425)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(1,354,714)</u>	<u>(2,967,425)</u>

The notes on pages 19 to 40 form part of these audited financial statements.

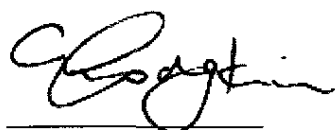
DECO 11 – UK CONDUIT 3 PLC

STATEMENT OF FINANCIAL POSITION

AS AT 26 DECEMBER 2021

	Notes	2021 £	2020 £
Assets			
Current assets			
Trade and other receivables	9	4,327,844	4,405,998
Cash and cash equivalents	10	881,286	1,381,286
Total current assets		5,209,130	5,787,284
Total assets		5,209,130	5,787,284
Equity			
Share capital	11	12,502	12,502
Retained losses	11	(164,001,632)	(162,646,918)
Total shareholders' deficit	11	(163,989,130)	(162,634,416)
Liabilities			
Current liabilities			
Loan notes	12	162,403,190	162,403,190
Interest payable on loan notes	12	6,731,879	5,915,150
Trade and other payables	13	63,191	103,360
Total current liabilities		169,198,260	168,421,700
Total liabilities		169,198,260	168,421,700
Total equity and liabilities		5,209,130	5,787,284

These financial statements of Deco 11 – UK Conduit 3 Plc, Company Registration 05990966 on pages 15 to 40 were approved and authorised for issue by the Board on 23rd June 2022 and are signed on their behalf by:



Graham Hodgkin
Director

The notes on pages 19 to 40 form part of these audited financial statements.

DECO 11 – UK CONDUIT 3 PLC**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 26 DECEMBER 2021**

	Share capital £	Retained losses £	Total equity £
Balance as at 26 December 2019	12,502	(159,679,493)	(159,666,991)
Loss for the year 26 December 2020	-	(2,967,425)	(2,967,425)
Balance as at 26 December 2020	<u>12,502</u>	<u>(162,646,918)</u>	<u>(162,634,416)</u>

	Share capital £	Retained losses £	Total equity £
Balance as at 26 December 2020	12,502	(162,646,918)	(162,634,416)
Loss for the year 26 December 2021	-	(1,354,714)	(1,354,714)
Balance as at 26 December 2021	<u>12,502</u>	<u>(164,001,632)</u>	<u>(163,989,130)</u>

The notes on pages 19 to 40 form part of these audited financial statements.

DECO 11 – UK CONDUIT 3 PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 26 DECEMBER 2021

	Notes	2021 £	2020 £
Operating activities			
Loss before tax for the year		(1,354,714)	(2,967,425)
<i>Adjustments for:</i>			
Impairment loss on commercial mortgage loans	8	-	734,241
Interest from mortgage loans	4	-	(734,241)
Bank interest received	4	(5,703)	(45,077)
Decrease / (increase) in trade and other receivables	9	78,154	(4,401,462)
Increase / (decrease) in trade and other payables	13, 14	776,560	(928,221)
Tax paid		-	-
Net cash used in operating activities		(505,703)	(8,342,185)
Investing activities			
Bank interest received		5,703	45,077
Proceeds received to discharge mortgage loans	8	-	116,489,799
Net cash from investing activities		5,703	116,534,876
Financing activities			
Partial redemptions of loan notes	13	-	(106,875,193)
Net cash used in financing activities		-	(106,875,193)
Net (decrease) / increase in cash and cash equivalents		(500,000)	1,317,498
Cash and cash equivalents at beginning of the year		1,381,286	63,788
Cash and cash equivalents at end of the year	10	881,286	1,381,286

The notes on pages 19 to 40 form part of these audited financial statements.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 26 DECEMBER 2021

1. GENERAL INFORMATION

The Company incorporated on 7 November 2006 in the United Kingdom under the Companies Act 2006 and domiciled in England. As from 20 June 2022, the Company's registered office address is Level 8 Central Square, 29 Wellington Street, Leeds, West Yorkshire, LS1 4DL. The Company was established as a special purpose Company to issue loan notes, to acquire the beneficial interest in mortgage loans from the Arranger 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. The Company is limited by shares.

2. BASIS OF ACCOUNTING

Statement of compliance

The Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Act.

The accounting policies set out below have been applied in respect of the financial year ended 26 December 2021.

Basis of preparation

The financial statements have been prepared on a basis other than going concern.

The financial statements of the Company are prepared for the year ended 26 December 2021 and the comparative year is 26 December 2020.

The financial statements are presented in Pound Sterling (£). Monetary amounts in these financial statements are rounded to the nearest £1.

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 are set out in the Strategic and Directors' report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 3 and 14 to the financial statements, include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Company has net liabilities of £163,989,130 (2020: £162,634,416) as a result of accumulated impairments of £159,158,011 (2020: £159,158,011) on the mortgage loans. 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 mortgage loans. The noteholders will therefore ultimately bear the Company's deficits on maturity of the notes.

In October 2019, the Special Servicer was approached by a significant majority of noteholders who expressed their concerns, given the current political landscape, relating to the macro-economic position of the UK and the prospects of UK commercial real estate values. The noteholders indicated a desire for a quicker workout compared to the existing arrangement.

On 11 February 2020, a Final Recovery Determination was notified in respect of the Loans following a discounted pay off of the properties backing the Loans.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

2. BASIS OF ACCOUNTING (CONTINUED)

Going concern (Continued)

£763,126.93 (the “Reserved Amount”) continues to be held in the Issuer Transaction Account in respect of amounts claimed by the Special Servicer as a Liquidation Fee. The Issuer and the Special Servicer have corresponded on the issue of whether or not a Liquidation Fee is, in fact, payable to the Special Servicer pursuant to the provisions of the Servicing Agreement. The Issuer has not, to date, agreed that a Liquidation Fee is payable as claimed by the Special Servicer. Pending a resolution, the Reserved Amount will continue to be held in the Issuer Transaction Account.

In addition, certain beneficial holders of the most senior class of Notes currently outstanding have informed the Issuer that there are grounds for believing the Loans were discharged by transactions involving affiliates of the Special Servicer at a material undervalue and that they have made their final decision that they intend to instruct the Issuer Security Trustee to enforce the security under the Transaction Documents in order to ensure that these matters are investigated fully and that noteholders suffer no material losses as a result of them. While the Issuer is not aware of the specific nature of any directions to be given by those Noteholders in connection with enforcement of such security, it is understood that the security capable of being enforced would include the Issuer’s rights in respect of the amount claimed by the Special Servicer as the Liquidation Fee (as referred to in the Issuer’s notice to Noteholders dated 7 December 2020).

Discussions in relation to these matters remain ongoing.

All the Company’s mortgage loans were derecognised in 2020 and the Company has since ceased trading. The Directors have assessed the likelihood of whether the Company will be able to continue trading for at least 12 months from the date of signing of the financial statements and consequently they have prepared the financial statements on a basis other than going concern which includes, where appropriate, writing down the entity’s assets to net realisable value. The financial statements do not include any provision for the future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting period.

The Directors have the intention of liquidating the Company in the foreseeable future. As at 26 December 2021, all the Company’s assets and liabilities have been disclosed as current in the financial statements. The fair value of the remaining assets, being short term in nature, approximates their carrying value. The Company is not expected to receive further income from the Loans to pay the noteholders.

COVID-19 Global Pandemic

The Directors have considered the impact of COVID-19 on the Company and note that since the Company’s principal activity is no longer applicable, they believe that the Company is not directly impacted.

The Company entered administrative receivership on 10 June 2022.

Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements

Liquidation Fee and Noteholder litigation

The judgement involved in identifying the Liquidation Fee is based on an assessment of the terms of the contract between the Issuer and the Special Servicer and whether certain conditions have been made that would mean the fee is payable. Additionally, judgement is involved in identifying the appropriate accounting for any litigation, based on an assessment of information available to the Directors to date. No legal action has commenced to date.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Company's financial instruments comprise cash and cash equivalents, loan notes and various receivables and payables that arise directly from its operations. The main purpose of the loan notes was to finance the beneficial interest in mortgage loans. These financial instruments are classified in accordance with the principles of IFRS 9 Financial Instruments as described below.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income (FVOCI) and Fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The IFRS 9 impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI. During the year, no impairment was recognised, given that all the mortgage loans have been derecognised in the prior year.

Financial Assets and Financial Liabilities

Recognition and initial measurement

The Company initially recognises financial assets and financial liabilities at fair value on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification of financial assets

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (Continued)

The Company derecognises a financial asset when its contractual obligations are discharged or cancelled or expired.

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held, the Company considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the arranger is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity;
- financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL; and
- Held-to-collect business model: this includes cash and cash equivalents and other receivables. These financial assets are held to collect contractual cash flow.

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (Continued)

Assessment whether contractual cash flows are SPPI (Continued)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets are not reclassified subsequent to their initial recognition unless the Company were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

Implementation of classification and measurement policy changes

Based on the constitutive documents of the Company, the Company has not applied the fair value option to record its financial assets. Since the Company uses the hold to collect business model and has passed the contractual cash flow characteristic test, the Company's financial asset has been classified as "Amortised Cost". This outcome is in line with managements' expectation given the nature of the Company's business models and risk appetite.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Interest is calculated on a net impaired basis for stage 3 loans. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at amortised cost includes:

- Trade and other payables
- Interest payable on loan notes
- Loan notes

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss, including trade and other receivables. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For trade and other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Directors have determined the ECL as being immaterial.

Trade and other receivables are written off when there is no reasonable expectation of recovery.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

Impairment of financial assets

General concepts within IFRS 9 expected loss approach

Under IFRS 9 an entity is required to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition. Under the IFRS 9 ECL model, the change in credit risk should be based on the risk of default and not changes in the amount of ECL which may be expected on a financial instrument. The standard introduces a 3-stage model for impairment, based on changes in credit risk quality since initial recognition:

Stage 1 – includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month ECL is recognised. A 12-month ECL is the expected credit losses that result from default events that are possible within 12 months of the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. Therefore, all financial assets in scope will have an impairment provision equal to at least 12-month ECL.

Stage 2 – includes financial instruments that have had a significant increase in credit risk since initial recognition but that does not have objective evidence of impairment. For these assets, lifetime ECL is recognised, being the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3 – includes financial assets that have objective evidence of impairment at the reporting date, i.e. are credit-impaired. For these assets, lifetime ECL is recognised.

The Company recognises an allowance for expected credit losses (ECL) for all financial instruments not held at fair value through profit or loss. While cash and cash equivalents and trade and other receivables are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

In the prior year, all the Company's mortgage loans were disposed and derecognised.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (Continued)

ECL framework

IFRS 9 introduces an expected credit loss impairment model that recognises impairment losses on a forward-looking basis. In order to implement ECL models, the Company had to leveraged the systems and data used to originate and underwrite its loans and developed statistical models tailored to the requirements of IFRS 9.

Impairment - Measurement

ECLs are discounted at the effective interest rate of the financial asset.

Key drivers of ECL

The following concepts introduce significant judgment to impairment accounting and will have a significant impact on the level of ECL allowances:

- assessing both 12 month and lifetime ECL;
- determining when a significant increase in credit risk has occurred; and
- incorporating forward looking information including forecast macro-economic factors through probability weighted scenarios.

Definition of default

IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument

Presentation of allowance for ECLs in the Statement of Financial Position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains or losses arising from the disposal of the mortgage loans

Any gains or losses arising from the disposal of the mortgage loans were recognised in the Statement of Comprehensive Income.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

The below accounting policies have been applied consistently for both current year and prior periods.

Commercial loans

In assessing whether or not an event of default exists for the commercial loans, the following key indicators are considered:

- i) high loan to value;
- ii) covenant breaches;
- iii) loss of significant tenants or other decreases in tenant quality;
- iv) the probability of the borrower entering bankruptcy; and
- v) local economic conditions (for example, where this impacts on the value of underlying collateral).

Where there is an event of default, we assess cash flows on a case by case basis considering the following factors:

- i) our exposure to the borrower;
- ii) the viability of the borrowers' business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- iii) the amount and timing of expected receipts and recoveries of collateral;
- iv) the extent of other creditors' claims ranking ahead of the Company's, and the likelihood of other creditors continuing to support the borrower;
- v) the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- vi) the realisable value of security at the expected date of sale and likelihood of successful repossession; and
- vii) the likely deduction of any costs involved in recovery of amounts outstanding.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. *As at year end, no deferred consideration was recognised in the Statement of Comprehensive Income.*

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. Previously all withdrawals from the Company's bank accounts were restricted by the detailed priority of payments set out in the securitisation agreements. Since the Company has ceased trading, the Company's bank accounts are no longer restricted. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

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.

Interest income and expense

Interest income and interest expense are recognised in profit or loss in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument. The effective interest rate is established on *initial recognition of the financial asset or liability and is revised at each reporting date. The calculation of the effective interest rate includes all fees and costs paid or received, transaction costs, and discounts or premiums, that are an integral part of the effective interest rate but does not consider future credit losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Where the expected cash flows cannot be reliably estimated contractual cashflows are used using the information at each reporting date. Under IFRS 9, interest income on stage 3 assets is calculated based on the net impaired basis of the carrying amount of the loans using the effective interest rate method.*

Interest received or receivable, interest paid or payable are recognised in profit or loss as interest income and interest expense, respectively.

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 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 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. Further information is disclosed in note 7.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax expense (Continued)

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

New and amended standards effective and adopted during the year

All new and amended accounting standards which have become effective for the year have been adopted but have had no material effect on the reported performance, financial position or disclosures of the Company, therefore these standards have not been listed separately.

New and amended standards issued, not yet effective and not early adopted

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:

- Annual Improvements to IFRS Standards 2018-2020 Cycle: Subsidiary as a First-Time Adopter- IFRS 1 First-time Adoption of International Financial Reporting Standards (effective date:1 January 2022)
- Amendments to IFRS 3 – References to Conceptual Framework (effective date:1 January 2022)
- Amendments to IAS 1 and IFRS Practice Statement 2: Presentation of Financial Statements and Disclosure of Accounting policies (effective date:1 January 2023)
- Amendments to IAS 1: Classification of Liabilities as current or non-current (effective date: 1 January 2023)
- Amendments to IAS 8: Accounting policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective date: 1 January 2023)
- Amendments to IAS 12: Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective date: 1 January 2023)

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Company in future periods.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Segmental reporting

The principal asset of the Company is the beneficial interest in the mortgage loans 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 because there is only one segment.

DECO 11 – UK CONDUIT 3 PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 26 DECEMBER 2021****4. INTEREST INCOME**

	26 December 2021	26 December 2020
	£	£
Income from mortgage loans	-	734,241
Bank interest income	5,703	45,077
	5,703	779,318

5. INTEREST EXPENSE

	26 December 2021	26 December 2020
	£	£
Interest on loan notes	816,729	1,707,615
	816,729	1,707,615

6. OTHER OPERATING EXPENSES

	26 December 2021	26 December 2020
	£	£
Annual audit fees (Mercer & Hole)	48,000	-
Annual audit fees (Deloitte LLP)	37,610	40,000
Fees payable for tax services	600	600
Trustee, administration and cash management fees	-	195,775
Corporate services and secretarial fees	24,275	27,118
Legal and professional fees	428,283	1,002,426
Other expenses	4,920	38,968
	543,688	1,304,887

No non-audit fees were paid to the auditors during the year.

Directors' emoluments during the year amounted to £7,200 (2020: £6,000), being £4,800 (2020: £3,000) for Mr Graham Cox and £2,400 (2020: £3,000) for Mr Graham Hodgkin, for their services as Directors to the Company during the year. As at 26 December 2021, an amount of £2,400 (2020: £nil) was payable to Mr Graham Cox for his services as a Director for the year. The Directors had no material interest in any contract of significance in relation to the business of the Company (2020: none). The Company did not have any employees during the year (2020: none).

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

7. INCOME TAX CHARGE

For UK corporation tax purposes, the Company has been considered as a Securitisation Company under the 'Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)'. Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the company is required to pay tax on its retained cash profits as specified in the documentation governing the transaction.

As announced in the March 2021 budget, the UK's corporation tax will be set at 19% for the financial year beginning April 2021. This maintains the rate at 19% and is set to remain the same for financial periods beginning before April 2023. The charge to corporation tax will be increased to 25% for financial year beginning April 2023 or later.

	26 December 2021 £	26 December 2020 £
Current tax:		
Corporation tax charge for the year/period at a rate of 19% (2020: 19%)	-	-
Total income tax charge in Statement of Comprehensive Income	-	-

Reconciliation of total tax charge

Loss before tax	(1,354,714)	(2,967,425)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	(257,396)	(563,811)
Permanent differences relating to application of Taxation of Securitisation Companies Regulations 2006	257,396	563,811
Total tax charge reported in the Statement of Comprehensive Income	-	-

8. MORTGAGE LOANS

	2021 £	2020 £
At 27 December	-	116,489,799
Redemptions	-	-
Proceeds received to discharge mortgage loans	-	(116,489,799)
Accrued interest	-	734,241
Movement in the impairment provision during the year	-	(734,241)
At 26 December	-	-

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

8. MORTGAGE LOANS (CONTINUED)

The mortgage loans were classified as “amortised cost”. In the prior year, all the mortgage loans were disposed thus, derecognised. On 3 February 2020, their DPO was completed and the Company received the final proceeds on 10 February 2020. The mortgage loans were secured over commercial properties. Deutsche Bank AG, London Branch acted as security trustee to the mortgage loans.

The Company recognises an allowance for expected credit losses (ECLs) for a financial asset or portfolio of financial asset not held at fair value through profit or loss. Under IFRS 9 an entity is required to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition. Under the IFRS 9 ECL model, the change in credit risk should be based on the risk of default and not changes in the amount of ECL which may be expected on a financial instrument. Further information on ECL is provided in Note 1.

Mapeley Gamma loan: The loan was placed into special servicing in October 2012 due to a breach of the LTV covenant. As such, an impairment assessment is carried out annually on the loan. The Special Servicer appointed an asset manager with a view to enhance the value of the portfolio of properties over a three-year period. On 3 February 2020, a DPO was completed for the Mapeley Gamma Loan and the Company received a final amount of £107,006,799. The Directors have used the final proceeds of the mortgage loans received in February 2020 as the recoverable amount. Therefore, the losses or gains on derecognition of the mortgage loans are £Nil (2020: £Nil).

Wildmoor Northpoint Limited loan: The loan defaulted on its 25 July 2010 maturity date and was subsequently placed into special servicing. As such, an impairment assessment is carried out annually on the loan. On 3 February 2020, a DPO was completed for the Wildmoor Northpoint Limited Loan and the Company received a final amount of £7,683,000. The Directors have used the final proceeds of the mortgage loans received in February 2020 as the recoverable amount. Therefore, the losses or gains on derecognition of the mortgage loans are £Nil (2020: £Nil).

CPI Retail Active Management loan: The loan defaulted on its 20 July 2011 maturity date and was subsequently placed into special servicing. As such, an impairment assessment is carried out annually on the loan. On 3 February 2020, a DPO was completed for the CPI Retail Active Management Loan and the Company received a final amount of £1,800,000. The Directors have used the final proceeds of the mortgage loans received in February 2020 as the recoverable amount. Therefore, the losses or gains on derecognition of the mortgage loans are £Nil (2020: £Nil).

On 3 February 2020, the DPO was completed for the Mapeley Gamma Loan, the Wildmoor Northpoint Limited Loan and CPI Loan. The Special Servicer received completion proceeds on 4 February 2020.

The final proceeds to discharge the mortgage loans amounted to £116,489,799 and were received as follows:

Mapeley Gamma Loan – £107,006,799

Wildmoor Northpoint Limited Loan – £7,683,000

CPI Retail Active Management Loan – £1,800,000

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

9. TRADE AND OTHER RECEIVABLES

	2021 £	2020 £
Prepayments and accrued income	5,117	317
Receivable from Reed Smith LLP*	2,843,604	3,403,602
Receivable from Corporate Services Provider*	1,000,000	1,000,000
Receivable from Euronext - Annual listing fee	-	383
Other current assets	2,203	1,696
Receivable from Clifford Chance LLP **	94,855	-
Receivable from Deutsche Trustee Company Limited ***	382,065	-
	4,327,844	4,405,998

* From the proceeds received on 4 February 2020 from the DPO, £5,000,000 was paid to the Corporate Services Provider to cover for certain ongoing costs and legal costs of the Company and for the Corporate Services Provider in relation to the Transaction. Out of this amount, £4,000,000 was originally held with Reed Smith LLP, acting as the lawyers for the Corporate Services Provider. As at year end, the balance was revised to £2,843,604 (2020: £3,403,602), pursuant to fees paid on behalf of the Company. Additionally, as at year end, £1,000,000 is being held in the Corporate Services Provider's bank accounts.

** During the year, the Company settled invoices of £94,855 in relation to legal services provided by Clifford Chance LLP. Post year end, these invoices were consequently refunded to the Company.

*** During the year, the Company transferred the amount of £382,065 to the Trustee Retention Account held by Deutsche Trustee Company Limited, in respect of its potential fees, costs and expenses in connection with certain matters that are subject to ongoing discussions.

10. CASH AND CASH EQUIVALENTS

	2021 £	2020 £
Cash and cash equivalents	881,286	1,381,286

The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. The cash and cash equivalents were previously restricted for use as per the priority of payments in accordance with the Offering Circular. Out of the available cash balance, the Company has restricted £763,126.83 in respect of amounts claimed by the Special Servicer as a Liquidation Fee.

11. TOTAL SHAREHOLDERS' DEFICIT

	Issued capital £	Retained losses £	Total £
As at 26 December 2020	12,502	(162,646,918)	(162,634,416)
Loss for the year	-	(1,354,714)	(1,354,714)
Balance as at 26 December 2021	12,502	(164,001,632)	(163,989,130)

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 quarterly paid. Sanne Nominees Ireland Limited holds one fully paid £1 share under a declaration of trust for charitable purposes. The remaining 49,999 shares are held by Deco 11–UK Conduit 3 Holding Limited.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

12. 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 14.

	2021 £	2020 £
At 26 December 2020/2019	162,403,190	269,278,383
Redemptions during the year	-	(106,875,193)
	162,403,190	162,403,190
Non-current liabilities		
Loan notes	-	-
	-	-
Current liabilities		
Loan notes	162,403,190	162,403,190
Interest payable on loan notes	6,731,879	5,915,150
	169,135,069	168,318,340

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.

For the Mapeley Gamma Loan, a loan level liquidity facility of £10,000,000 was entered in to on 27 October 2017 with the Special Servicer. The commitment under the facility is £10,000,000, available for Mortgage Shortfall Drawings. On 3 February 2020, following the DPO, the liquidity facility was terminated.

On 27 April 2020, the Company repaid GBP 106,875,193 to the Noteholders in the following order:

Class A - 1A – GBP 53,529,283

Class A - 1B – GBP 53,345,910

Further discussion of the Company's approach to financial instruments is set out in Note 3 (significant accounting policies) and in Note 14 (Financial risk management).

On 20 December 2006, the Company issued the following class of Notes:

Class of Notes	Currency	Issue price	Interest	Margin	Maturity
A-1A	GBP	220,000,000	3-month Libor	0.19%	January 2020
A-1B	GBP	74,500,000	3-month Libor	0.23%	July 2022
A-2	GBP	45,500,000	3-month Libor	0.25%	July 2022
B	GBP	27,000,000	3-month Libor	0.33%	July 2022
C	GBP	37,000,000	3-month Libor	0.50%	July 2022
D	GBP	29,000,000	3-month Libor	0.85%	July 2022
E	GBP	6,000,000	3-month Libor	1.25%	July 2022
F	GBP	5,387,935	3-month Libor	3.40%	July 2022

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

12. LOAN NOTES (CONTINUED)

At the reporting date, the outstanding amount for each class of Notes were as shown in the table below:

Class of Notes	2021	2020
	£	£
A-1B	17,396,532	17,396,532
A-2	43,205,117	43,205,116
B	26,191,835	26,191,835
C	36,124,333	36,124,333
D	28,229,956	28,229,956
E	5,920,596	5,920,596
F	5,334,821	5,334,821
	162,403,190	162,403,189

13. TRADE AND OTHER PAYABLES

	2021	2020
Current liabilities	£	£
Accruals	63,191	103,360
	63,191	103,360

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled, in order of priority in accordance with the Offering Circular. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

14. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Strategic Report on pages 2 to 6.

Financial instruments

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

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

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

Fair values, methodology and assumptions

Fair values

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The fair value of financial instruments is always determined on the basis of the listed price on an active market (mark to market) or, if this is not possible, on the basis of industry standard valuation models (mark to matrix or mark to model).

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated based on the market price.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values, methodology and assumptions (Continued)

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses industry standard models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices.

The Company did not make any material changes to the valuation techniques and industry standard models it used during the year ended 26 December 2021.

Fair value hierarchy

The Company applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date.

Level 2 - Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

Level 3 - Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable.

The methodology and assumptions used in estimating the fair value of financial instruments are disclosed below. The only financial instruments that were held at fair value on the Statement of Financial Position were derivatives. All the derivatives fall within the level 2 fair value hierarchy. There are no derivatives in place as at the year end.

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

	Notes	Carrying amount 2021 £	Fair value 2021 £	Carrying amount 2020 £	Fair value 2020 £
Trade and other receivables	9	4,327,844	4,327,844	4,405,998	4,405,998
Cash and cash equivalents	10	881,286	881,286	1,381,286	1,381,286
		5,209,130	5,209,130	5,787,284	5,787,284
Loan notes	12	162,403,190	-	162,403,190	-
Interest payable on loan notes	12	6,731,879	6,731,879	5,915,150	-
		169,135,069	6,731,879	168,318,340	-

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value hierarchy (Continued)

As the Company is not expected to receive further income from the mortgage loans as a result of its full disposal in the prior year, the fair value of £Nil was used for the year end. For those classes of notes for which the Company did not distribute to noteholders in April 2020, a fair value of £Nil was used. For those classes of notes for which a market price is not available, a fair value of £Nil was used. The carrying amount of the loan notes is based on the contractual obligations of the Company. Therefore, the loan notes have been categorised as level 2 financial instruments.

The carrying values of cash and cash equivalents, trade and other receivables, interest payable, trade and other payables are a reasonable approximation of the fair values of these instruments.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates under a different basis, or which reset at a different time. The Company previously minimised its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities were similar. The variable rate of interest receivable on the mortgage loans was in line with the variable interest rate of interest payable on the loan notes. However, given that all the Company's mortgage loans were derecognised and discharged in 2020, the Company is no longer exposed to interest rate risk on the mortgage loans.

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 26 December 2021	Weighted average effective interest rate %	Floating £	Non-interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	2,203	4,230,786	-	4,232,989
Cash and cash equivalents	-	881,286	-	-	881,286
Total assets		883,489	4,230,786	-	5,114,275
Liabilities					
Trade and other payables	-	-	63,191	-	63,191
Loan notes	0.764%	162,403,190	-	-	162,403,190
Total liabilities		162,403,190	63,191	-	162,466,381

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (Continued)

Effective interest rates and repricing analysis (Continued)

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

At 26 December 2020	Weighted average effective interest rate %	Floating £	Non-interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	1,696	4,404,302	-	4,405,998
Mortgage loans	0.000%	-	-	-	-
Cash and cash equivalents	-	1,381,286	-	-	1,381,286
Total assets		1,382,982	4,404,302	-	5,787,284
Liabilities					
Trade and other payables	-	-	103,360	-	103,360
Loan notes	0.610%	162,403,190	-	-	162,403,190
Total liabilities		162,403,190	103,360	-	162,506,550

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. However, given that all the Company's mortgage loans were derecognised and discharged in 2020, the Company is no longer exposed to prepayment risk on the mortgage loans.

Capital risk management

In prior periods, the Company managed its capital to ensure that it will be able to continue as a going concern. The capital structure of the Company consists mainly of debt, which includes loan notes and equity capital.

The Company has been set up so that the principal financial assets and liabilities and the relative underlying terms and conditions matched. The Company's transactions were designed to enable the Company to pay its liabilities as they fall due, without realising a return on capital. The level of interest income and interest expense were established on incorporation of the Company in order to realise a minimal profit each year and therefore there is no need for the monitoring of return of capital.

During the year ended 26 December 2021, the Directors have presented the financial statements on a basis other than the going concern as all the Company's mortgage loans were derecognised in the prior year. The Directors have the intention of liquidating the Company in the foreseeable future and thus has no policy in place to manage its capital risk. The noteholders will ultimately bear all the losses as the notes are limited recourse.

The Company is not subject to any external capital requirements.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

The Company is exposed to foreign currency risk due to the retranslation of some liabilities denominated in foreign currency. However, the exposure is not expected to be significant.

Liquidity risk

The mortgage loans of the Company were in default and on 3 February 2020, their DPO was completed. The loan level liquidity facility for Mapeley Gamma Loan was also terminated on the same date. Further payments are only due to noteholders to the extent there is available cash. Following the repayment of the last mortgage loans in the prior year, it is expected that no further cash will be made available to the Company.

The redemption of the Loan notes is dependent on the receipt of payments on the mortgage loans, given the limited resource nature of the Loan notes. Accordingly, given that all of the Company's mortgage loans were disposed in the prior year, hence, there is no obligation for the Company to repay the Loan notes. As such, there is no significant exposure to liquidity risk.

The undiscounted contractual cash flows for principal and interest on the loan notes have been disclosed in Note 12.

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

As at 26 December 2021	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
	£	£	£	£	£
Loan notes	162,403,190	-	-	-	-
Interest payable on loan notes	6,731,879	-	-	-	-
Total non-derivative financial instruments	169,135,069	-	-	-	-

As at 26 December 2020	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
	£	£	£	£	£
Loan notes	162,403,190	-	-	-	-
Interest payable on loan notes	5,915,150	-	-	-	-
Total non-derivative financial instruments	168,318,340	-	-	-	-

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

The above undiscounted contractual cash flows have been based on the assumptions that the repayment of the loan notes follows the same trend as the principal repayments on mortgage loans.

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 were previously secured on a number of UK commercial properties which were geographically diverse and included a diverse tenant portfolio. The largest single exposure to credit risk was the Mapeley Gamma mortgage loan. This gave rise to a relatively high concentration risk during the prior periods. On 3 February 2020, a DPO was completed for the Loans. The Special Servicer received completion proceeds on 4 February 2020. Following the repayment of the last mortgage loans in the prior year, it is expected that no further cash will be made available to the Company.

The maximum exposure to credit risk is the Statement of Financial Position amount. There is no significant exposure to credit risk, given the mortgage loans were derecognised in the prior year.

15. RELATED PARTY TRANSACTIONS

The Company is a special-purpose vehicle controlled by its Board of Directors. Mr Graham Cox and Mr Graham Hodgkin are Directors of the Company. Directors' emoluments during the year amounted to £7,200 (2020: £6,000) for their services as Directors to the Company during the year. The Company paid corporate service fees to Vistra (UK) Limited, in connection with corporate services received. The fees payable to them for their services for the year ended 26 December 2021 amounted to £15,402 (2020: £15,402) including irrecoverable VAT with amount £Nil unpaid at year end (2020: £Nil).

16. ULTIMATE PARENT UNDERTAKING

The Company was incorporated in the United Kingdom and registered in England and Wales.

Deco 11 UK Conduit 3 Holdings Limited holds 49,999 shares in the Company. Sanne Nominees Ireland Limited holds one share in Deco 11 – UK Conduit 3 plc under a declaration of trust for charitable purposes. However, as a result of the terms of the notes issued by the Company, Deco 11 UK Conduit 3 Holdings Limited is not deemed to control the Company. Further neither the shareholders nor the Directors have variable return over the Company and accordingly the Company has no Controlling party.

17. SUBSEQUENT EVENTS

The Reserved Amount of £763,126.93 continues to be held in the Issuer Transaction Account in respect of amounts claimed by the Special Servicer as a Liquidation Fee. The Issuer and the Special Servicer have corresponded on the issue of whether or not a Liquidation Fee is, in fact, payable to the Special Servicer pursuant to the provisions of the Servicing Agreement. The Issuer has not, to date, agreed that a Liquidation Fee is payable as claimed by the Special Servicer. Pending a resolution, the Reserved Amount will continue to be held in the Issuer Transaction Account.

In addition, certain beneficial holders of the most senior class of Notes currently outstanding have informed the Issuer that there are grounds for believing the Loans were discharged by transactions involving affiliates of the Special Servicer at a material undervalue and that they have made their final decision that they intend to instruct the Issuer Security Trustee to enforce the security under the Transaction Documents in order to ensure that these matters are investigated fully and that noteholders suffer no material losses as a result of them.

DECO 11 – UK CONDUIT 3 PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 26 DECEMBER 2021

17. SUBSEQUENT EVENTS (CONTINUED)

While the Issuer is not aware of the specific nature of any directions to be given by those Noteholders in connection with enforcement of such security, it is understood that the security capable of being enforced would include the Issuer's rights in respect of the amount claimed by the Special Servicer as the Liquidation Fee (as referred to in the Issuer's notice to Noteholders dated 7 December 2020).

Discussions in relation to these matters remain ongoing.

From the proceeds received on 4 February 2020 from the DPO, £5,000,000 was paid to the Corporate Services Provider to cover for certain ongoing costs and legal costs of the Company and for the Corporate Services Provider in relation to the Transaction. Out of this amount, £4,000,000 was originally held with the lawyers acting for the Corporate Services Provider. Up to the date of approval of these financial statements, Reed Smith confirmed on 08/06/2022 that the current balance was £2,701,198. Additionally, £1,000,000 is being in the Corporate Services Provider's bank accounts.

Administrative receivership

On 10 June 2022, the Company appointed David Kelly and Peter Dickens from PWC as joint administrative receivers to manage the Company's affairs and business as its agents and act without liability.

Russia and Ukraine conflict

On 24 February 2022, Russia commenced large-scale military action against Ukraine. In response to the Russian military action against Ukraine, the West has moved to impose broad-based sanctions targeting Russia, including but not limited to major Russian banks, certain other companies, Russian parliament members and certain members of the Russian elite and their families but also banning primary/secondary trading of sovereign debt and other select securities. Secondary effects of these developments, for example the cost and sufficiency of energy supplies in Western Europe and the economic impact of various scenarios, are hard to predict and could be severe. Where possible and to the extent of the Directors' current knowledge, these impacts, including potential Russian countermeasures, have been considered. As at year end, given that the Company's principal activity is no longer applicable, the Directors believe that the Company has not been directly impacted by the Russia-Ukraine conflict.