

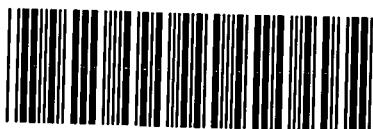
SANTANDER ASSET FINANCE plc

**Registered in England and Wales
Company Number 1533123**

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2013**

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STRATEGIC REPORT

The Directors submit the strategic report together with their directors' report and the audited financial statements for the year ended 31 December 2013.

Fair review of the Company's Business

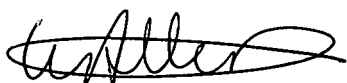
The Santander UK plc group (the "Group") manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Santander UK plc, which include the Company, are discussed in the Group's Annual Report which does not form part of this Report.

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in Note 4 to the financial statements.

By Order of the Board



For and on behalf of
Santander Secretariat Services Limited, Secretary

15 April 2014

Registered Office Address: 2 Triton Square, Regent's Place London NW1 3AN

SANTANDER ASSET FINANCE plc - 1533123

REPORT OF THE DIRECTORS

The Directors submit their report together with the strategic report and financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of Santander Asset Finance plc, (the "Company") is that of lessors and financiers of assets for the corporate sector.

The profit for the year before tax was £162,998,000 (2012: loss £248,061,000). This is stated after crediting impairment gains of £133,682,000 (2012: losses of £322,605,000).

The Company is exempt from the requirement to prepare group accounts. Santander UK plc is the immediate parent undertaking and parent undertaking of the smallest group of undertakings for which the group accounts are drawn up.

The directors do not expect any significant change in the level of business in the foreseeable future.

RESULTS AND DIVIDENDS

The profit for the year attributable to equity holders of the Company was £125,247,000 (2012: loss of £183,129,000). The directors do not recommend the payment of a final dividend (2012: Nil).

DIRECTORS

The Directors who served throughout the year and to the date of this report were as follows:

A E J Briggs
M Castrillo Garcia
M W Evans
C R Morley

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the report and the financial statements in accordance with applicable laws and regulations.

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

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

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

SANTANDER ASSET FINANCE plc - 1533123

REPORT OF THE DIRECTORS

STATEMENT OF 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, note 4 to the financial statements includes the Company's objectives, policies and processes for managing its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk and other risks.

The Company is part of the Santander UK Group. The Company has net current liabilities and is reliant on other companies in the Santander Group for a significant proportion of its funding. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Board of Santander UK plc has confirmed that it is a going concern and that it will provide funding to the Company for the foreseeable future.

The Directors, having assessed the responses of the directors of the Company's parent Santander UK plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Santander UK plc and group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Santander UK plc, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts.

FIXED ASSETS

The directors do not believe there is a substantial difference between the book value and the market value of land and buildings held by the Company.

FINANCIAL INSTRUMENTS

The Company's risks are managed on a group level by the immediate UK parent company, Santander UK plc.

The financial risk management objectives and policies of the Group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the Group financial statements.

The class of asset most exposed to credit risk in the Company is trade and other receivables. Credit risk is mitigated by security over the borrower's assets and is monitored on a revolving basis and subject to an annual or more frequent review. All exposures are with corporate and other customers.

The Company is financed by loans from its immediate UK parent company, Santander UK plc. The funding has no fixed repayment date and is therefore repayable on demand, which creates uncertainty in respect of the future funding position of the Company. This risk is mitigated by the fact that the Board of directors of Santander UK plc, has confirmed that the funding will remain in place for the foreseeable future.

Residual values are reviewed for impairment and an appropriate impairment loss is recognised in the income statement.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 4 to the financial statements.

QUALIFYING THIRD PARTY INDEMNITIES

Enhanced indemnities are provided to the directors of the Company by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remain in force as at the date of this Report and Accounts. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

REPORT OF THE DIRECTORS

PAYMENT POLICY

The Company has cost management and procurement policies that explicitly promote competitive tendering and dealing with suppliers in a fair and open manner. The Company does not operate a single payment policy in respect of all classes of suppliers. Payment terms vary depending on the supplier and the type of spend, and the supplier is made aware of these before engagement.

It is the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions. The Company's practice on payment of creditors has been quantified under the terms of Schedule 7 of the Accounting Regulations. Based on the ratio of the aggregate amounts owed to trade creditors at the end of the year to the aggregate amounts invoiced by suppliers during the year at 31 December 2013, trade creditor days for the Company were 48 (2012: 33 days).

AUDITORS

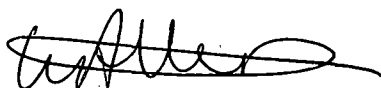
Each of the Directors as at the date of approval of this report has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the Company's forthcoming Annual General Meeting.

By Order of the Board



For and on behalf of
Santander Secretariat Services Limited,
Secretary
15 April 2014

Registered Office Address: 2 Triton Square, Regent's Place, London NW1 3AN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SANTANDER ASSET FINANCE plc

We have audited the financial statements of Santander Asset Finance plc for the year ended 31 December 2013 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



Tom Millar
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

15 April 2014

SANTANDER ASSET FINANCE plc - 1533123**INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £000	2012 £000
Revenue		112,280	Restated* 124,472
Cost of sales		(22)	(109)
GROSS PROFIT		112,258	124,363
Administrative expenses		(16,491)	(73,880)
Net impairment gains and losses		133,682	(322,605)
PROFIT / (LOSS) FROM OPERATIONS	5	229,449	(272,122)
Finance income	6	28,902	129,493
Finance costs	7	(78,839)	(87,453)
Other gains and losses	8	(16,514)	(17,979)
PROFIT / (LOSS) BEFORE TAX		162,998	(248,061)
Tax	9	(37,751)	64,932
PROFIT / (LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		125,247	(183,129)

All amounts above were generated from continuing operations.

The accompanying notes form an integral part of the accounts.

*** Restatement**

During the year, management reclassified certain costs relating to impairments to net impairment gains and losses to identify the trading performance of the company more clearly. This resulted in a transfer of comparable 2012 costs to net impairment gains and losses of £322,605,000 from administrative expenses.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

There is no comprehensive income or expense in either the current or previous financial year other than the loss for the current and previous year as set out in the Income Statement, therefore a separate Statement of Comprehensive Income and Expense has not been presented.

The accompanying notes form an integral part of the accounts.

SANTANDER ASSET FINANCE plc - 1533123**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2013**

	Issued capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	20,657	93,937	114,594
Loss for the year	-	(183,129)	(183,129)
Balance at 31 December 2012 and 1 January 2013	20,657	(89,192)	(68,535)
Profit for the year	-	125,247	125,247
Balance at 31 December 2013	20,657	36,055	56,712

The accompanying notes form an integral part of the accounts.

SANTANDER ASSET FINANCE plc - 1533123

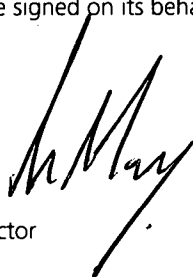
BALANCE SHEET

AS AT 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
ASSETS			
NON CURRENT ASSETS			
Property, plant, equipment and operating lease assets	10	3,287	3,384
Investments in Group undertakings	11	111,365	111,365
Trade and other receivables	12	2,232,603	1,847,679
Deferred tax asset	20	88	531
		2,347,343	1,962,959
CURRENT ASSETS			
Trade and other receivables	12	3,808,018	3,310,022
Cash and cash equivalents	17	-	-
Other assets	14	33,321	47,892
		3,841,339	3,357,914
TOTAL ASSETS		6,188,682	5,320,873
NON CURRENT LIABILITIES			
Other payables	21	(236,056)	(198,577)
CURRENT LIABILITIES			
Trade and other payables	21	(5,895,914)	(5,189,677)
Derivative financial instruments	18	-	(1,154)
		(5,895,914)	(5,190,831)
TOTAL LIABILITIES		(6,131,970)	(5,389,408)
NET ASSETS / (LIABILITIES)		56,712	(68,535)
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	19	20,657	20,657
Retained profit / (loss)		36,055	(89,192)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		56,712	(68,535)

The accompanying notes form an integral part of the accounts.

The financial statements were approved by the Board of directors and authorised for issue on 15 April 2014. They were signed on its behalf by: **COLIN MORLEY**



Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
Profit / (loss) for the year		125,247	(183,129)
NON-CASH ADJUSTMENTS			
Depreciation		97	283
Loss on disposal of operating lease assets		-	178
Loss on disposal of property, plant and equipment		-	349
Profit on disposal of investments		-	(2,646)
Increase in trade and other receivables		(868,349)	(399,202)
Increase / (decrease) in trade and other payables		34,246	(1,242,258)
(Decrease) / increase in accruals		(2,516)	1,836
Decrease in deferred tax asset		443	5,279
Impairment in investments		-	79,187
Decrease in fair value macro hedge		-	9,979
Decrease in derivative financial instruments		(1,154)	(201)
		837,233	(1,547,216)
CASH FLOWS FROM OPERATING ACTIVITIES		(711,986)	(1,730,345)
Group relief paid to group undertakings		(49)	(150,811)
Interest received from subsidiary undertakings		26,836	20,805
Interest paid to parent undertakings		(78,839)	(85,472)
Dividends receivable from subsidiary undertakings		(2,068)	(92,354)
Management charges received from subsidiary and fellow group undertakings		2,193	2,939
Management charges paid to parent undertakings		(9,003)	(6,916)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(772,916)	(2,042,154)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends receivable from subsidiary undertakings		2,068	92,354
Proceeds from disposal of investments		-	2,646
		2,068	95,000
CASH FLOWS USED IN FINANCING ACTIVITIES			
Redemption of cash advances from parent undertaking		770,848	(69,422)
Receipts of cash advances from subsidiary undertakings		-	2,016,576
		770,848	1,947,154
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents as at 1 January		-	-
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	17	-	-

The accompanying notes form an integral part of the accounts.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the Companies Act 2006 and the historical cost convention, as modified by the revaluation of all derivative financial instruments and on the going concern basis of accounting as disclosed in the Directors statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Company is Sterling.

Compliance with International Financial Reporting Standards

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB that, under European Union Regulations, are effective and available for adoption at the reporting date. The Company has complied with IFRS as issued by the IASB in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union.

Recent accounting developments

In 2013, the Company adopted the following amendments to standards which became effective for financial years beginning on 1 January 2013.

- a) IAS 1 'Presentation of Financial Statements' – In June 2011, the IASB issued amendments to IAS 1 that retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (i) items that will not be reclassified subsequently to profit or loss; and (ii) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012.

The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 did not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

- b) IAS 19 'Employee Benefits' – In June 2011, the IASB issued amendments to IAS 19 that change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

These amendments to IAS 19 had no significant impact on the Company's profit or loss or financial position.

- c) IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' - In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013.

The Company has no financial assets and financial liabilities for which offsetting applies and therefore there is no impact from the adoption of the IFRS 7 amendments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (*continued*)

Recent accounting developments (*continued*)

- d) IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – In May 2011, the package of five standards on consolidation, joint arrangements, associates and disclosures was issued. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

> Under IFRS 10, control is the single basis for consolidation, irrespective of the nature of the investee; this standard therefore eliminates the risks-and-rewards approach. IFRS 10 identifies the three elements of control as power over the investee, exposure, or rights, to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns. An investor must possess all three elements to conclude that it controls an investee. The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes to at least one of the three elements. Retrospective application is required subject to certain transitional provisions.

> IFRS 11 applies to all entities that are parties to a joint arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. IFRS 11 establishes two types of joint arrangements, joint operations and joint ventures, which are distinguished by the rights and obligations of the parties to the arrangement. In a joint operation, the parties to the joint arrangement (referred to as 'joint operators') have rights to the assets and obligations for the liabilities of the arrangement. By contrast, in a joint venture, the parties to the arrangement (referred to as 'joint venturers') have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognise its share of the assets, liabilities, revenues and expenses in accordance with applicable IFRSs; however, a joint venturer would account for its interest by using the equity method of accounting under IAS 28 (2011). The amendments to IAS 28 did not affect the Company.

The Company has no joint arrangements and so there is no impact from the IFRS 11 requirements.

> IFRS 12 integrates the disclosure requirements on interests in other entities, currently included in several standards to make it easier to understand and apply the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard also contains additional requirements on a number of topics. Under IFRS 12, an entity should disclose information about significant judgements and assumptions (and any changes to those assumptions) made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement. IFRS 12 also requires additional disclosures to provide information to enable users to assess the nature of, and risks associated with the Company's interests in other entities and the effect of those interests on the Company's financial position, performance and cash flow. Disclosures shall be aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. The standard has been applied prospectively from 1 January 2013.

- e) IFRS 13 'Fair Value Measurement' - In May 2011, the IASB issued IFRS 13, which establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

The application of IFRS 13 had no impact on the measurements of the Company's assets and liabilities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES (*continued*)

Recent accounting developments (*continued*)

- f) There are a number of other changes to IFRS that were effective from 1 January 2013. Those changes did not have a significant impact on the Company's financial statements.

Future accounting developments

The Company has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the Company:

- a) IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments. The second and third phases in the IASB's project to replace IAS 39 will address impairment of financial assets measured at amortised cost and hedge accounting. The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2012 to address practice and other issues, with an exposure draft of revised proposals issued in November 2012. The proposals have yet to be finalised and it is therefore not yet possible to estimate the financial effects. The effective date has now been delayed beyond 1 January 2015.
- b) In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively. The Company is currently assessing the impact of these clarifications but it is not practicable to quantify the effect as at the date of the publication of these financial statements.
- c) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. However, it is not practicable to provide a reasonable estimate of their effects on the Company's financial statements until a detailed review has been completed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES (*continued*)

Principal accounting policies

The principal accounting policies adopted are set out below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

Revenue from operating and finance leases is recognised in accordance with the Company's policy on Leases (see below).

Upfront arrangement fees on financing agreements with customers are spread on an effective interest rate basis over the contractual life of that agreement.

Finance income and finance costs

Income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts. Interest income on assets classified as loans and receivables, interest expense on liabilities classified at amortised cost and interest income and expense on hedging derivatives are recognised in the income statement.

Investments in subsidiaries

Investments in subsidiaries are recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (*continued*)

Taxation

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Taxable loss differs from 'Loss before tax' as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit also includes items that are taxable or deductible that are not included in 'Loss before tax'. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Leases

The Company as lessor - Operating lease assets are recorded at deemed cost and depreciated over the life of the asset after taking into account anticipated residual values. Operating lease rental income and depreciation is recognised on a straight-line basis over the life of the asset.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases and hire purchase contracts.

If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the lower of the estimated useful life and the life of the lease. The corresponding rental obligations are recorded as borrowings. The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES (*continued*)

Property, plant and equipment and depreciation

The cost of additions and improvements to office premises, plant, fixtures, equipment and motor vehicles is capitalised. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life as follows:

Leasehold buildings	over the remainder of the lease up to 75 years
Fixtures and major alterations	10 to 15 years
Plant, equipment and motor vehicles	3 to 7 years

Depreciation is not charged on freehold land or assets in the course of construction.

Pensions and post-retirement medical benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Santander UK plc is the sponsoring employer for the scheme.

There is no contractual agreement or stated policy for recharging the defined benefit cost to other Companies in the Santander UK plc group ("Group"). Therefore, in accordance with IAS 19, the Company does not recognise an asset or liability for the scheme and accounts for its contributions as a defined contribution scheme.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with less than three months' maturity from the date of acquisition.

Financial assets

The Company classifies its financial assets as: financial assets at fair value through profit or loss and loans and receivables.

(a) Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition. A financial asset is classified as held for trading if it is a derivative or it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances financial assets other than those that are held for trading are designated at fair value through profit or loss where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or recognising the gains or losses on them on a different basis, where the assets are managed and their performance evaluated on a fair value basis, or where a financial asset contains one or more embedded derivatives which are not closely related to the host contract.

Derivative financial instruments are classified as fair value through profit or loss, except where in a hedging relationship. They are derecognised when the rights to receive cash flows from the asset have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or fair value through profit or loss. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate method. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership. Loans and receivables consist of trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES *(continued)*

Financial liabilities

Financial liabilities are initially recognised when the Company becomes contractually bound to the transfer of economic benefits in the future. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is a derivative or it is incurred principally for the purpose of selling or being unwound in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances financial liabilities other than those that are held for trading are designated at fair value through profit or loss where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on a different basis, or where a financial liability contains one or more embedded derivatives which are not closely related to the host contract. These liabilities are initially recognised at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement.

Derivative financial instruments are classified as fair value through profit or loss.

(b) Other financial liabilities

All other financial liabilities are initially recognised at fair value net of transaction costs incurred. They are subsequently stated at amortised cost and the redemption value recognised in the Income Statement over the period of the liability using the effective interest method.

Trade and other payables are classified as amortised cost.

Derivative financial instruments

Derivative financial instruments ('derivatives') are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date. Transactions are undertaken in interest rate, cross currency, equity, residential property and other index-related swaps, forwards, caps, floors, swaptions, as well as credit default and total return swaps, equity index contracts and exchange traded interest rate futures, and equity index options.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow and option pricing models.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Contracts containing embedded derivatives are not subsequently reassessed for separation unless there has been a change in the terms of the contract which significantly modifies the cash flows, or (where assets have been reclassified) where they are reassessed at the time of reclassification.

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. All derivatives are presented as current assets or current liabilities.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement, and included within finance costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (*continued*)

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss ('FVTPL'), including all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing, knowledgeable parties, other than in a forced or liquidation sale.

a) Initial measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets. Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in profit or loss on initial recognition. Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

b) Subsequent measurement

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.

The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

The Company categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

- | | |
|----------|---|
| 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. There are no Level 1 positions. |
| 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 2 positions consist of derivative financial instruments. |
| 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. There are no Level 3 positions. |

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 as the current bid price multiplied by the number of units of the instrument held.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES (continued)

"Regular way" purchases of financial assets and issues of financial liabilities

A regular way purchase is a purchase of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the market place concerned.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date. The assets are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

Regular way issues of equity or financial liabilities measured at amortised cost are recognised on settlement date; all other regular way issues are recognised on trade date. The liabilities are derecognised when extinguished.

Offsetting financial assets and liabilities

Financial assets and liabilities including derivatives are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The Company is party to a number of arrangements, including master netting arrangements under industry standard agreements which facilitate netting of transactions in jurisdictions where netting agreements are recognised and have legal force. The netting arrangements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis.

Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets classified as loans and receivables have become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Company would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - i) adverse changes in the payment status of borrowers in the group; or
 - ii) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for an individually assessed financial asset it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Commercial lending is reviewed for impairment on a case by case basis for individually significant loans. Loans that are not individually significant are assessed for impairment on a portfolio basis.

Impairment is calculated based on the probability of default, exposure at default and the loss given default, using recent data. An adjustment is made for the effect of discounting cash flows.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. If there is objective evidence of impairment for financial assets classified as available-for-sale, the cumulative fair value loss on the instrument is removed from equity and recognised in the Income Statement.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES *(continued)*

Foreign currency translation

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Some asset and liability amounts reported in the accounts are based on management judgement, estimates and assumptions. There is a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

Residual values are estimated at the inception of lease agreements and are subsequently reviewed for impairment during the life of the lease agreements. Appropriate impairment losses are charged to the income statement.

Impairment loss allowances

Individual impairment loss allowances are made in respect of finance and rental agreements where recovery is considered doubtful; a collective impairment loss allowance is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending. The impairment loss allowances are deducted from the net investment in finance agreements. The charge in the income statement comprises write offs, recoveries and the net movement in impairment loss allowances in the year.

Valuation of financial instruments

The values of all derivatives are stated at fair value. The fair value of derivative financial assets and liabilities is calculated on a discounted cashflow basis by reference to yield curves.

Effective interest rate calculations

IAS 39 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the Effective Interest Rate (EIR) methodology. In order to calculate EIR, the contracted repayment profile is used. If customers repay earlier than anticipated, this will generally lead to an increase in the balance sheet carrying value and a gain in the income statement.

Deferred tax asset

The Company manages its taxation policy in line with Group policy. The deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised the directors make judgements based on Group and Company budgets and forecasts about the amount of future Group and Company taxable profits and the timing of when these will be realised.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will allow all or part of the asset to be recovered. A reduction in the deferred tax asset is charged to the income statement in the period to which it relates.

3. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, currency risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

3. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (*continued*)

The Company manages its risk in line with the central risk management function of the Santander UK group. Santander UK's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK group's strategic objectives. Authority flows from the Santander UK plc Board to the Chief Executive Officer and from her to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK plc Annual Report which does not form part of this report.

The Santander UK group has three tiers of risk governance – risk management, risk control and risk assurance.

The first tier of risk governance – risk management is provided by the Santander UK group Board which approves Santander UK's Risk Appetite for each of the risks below, in consultation with Santander UK as appropriate, and approves the strategy for managing risk and is responsible for the Santander UK group's system of internal control. Within this tier, there is a process for transaction review and approval within certain thresholds, discharged by the Credit & Investment Approvals Committee. Transactions reviewed which exceed the threshold limits set are subject to prior review by Santander UK Risk before final approval by the Executive Risk Committee.

The second tier of risk governance – risk control is provided by the Santander UK Board independently supported by the Risk Division. The role of the Chief Risk Officer and Risk Division include development of risk measurement methodologies, risk approval, risk monitoring, risk reporting and escalation of risk issues in line with the relevant risk policies for all risks in the Santander UK Group. The Santander UK Group's central risk function provides services to the Company, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which ensure compliance with Group policies and limits, including risk policies, limits and parameters, an approval process relating to transactions that exceed local limits and the systematic review of exposures to large clients, sectors, geographical areas and different risk types.

The third tier of risk governance – risk assurance, provides independent objective assurance on the effectiveness of the management and control of risk across all of the Santander UK group. This is provided through the Non-Executive Directors, the Audit and Risk Committee and the Internal Audit function.

4. RISK MANAGEMENT DISCLOSURES

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements. The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk fora, risk committee and Board of directors.

Credit risk

Credit risk is the risk of financial loss arising from the default of a customer or counterparty to which the Company has directly provided credit, or for which the Company has assumed a financial obligation, after realising collateral held. The credit quality of customer assets is mitigated by the credit approval process in place. Credit risk is mitigated by security taken over the borrower's assets. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT DISCLOSURES (continued)

Credit risk (continued)

Lending decisions are based on independent credit risk analysis supplemented by the use of internal ratings tools which assess the obligor's likelihood of default. The output of the ratings tools is a borrower grade which maps to a long-run average one year probability of default. Borrower grades are reviewed at least annually, allowing identification of adverse individual and sector trends. The grade is integrated into an overall Credit & Risk evaluation, including wider factors such as transaction and borrower structure (ranking and structural subordination), debt serviceability and security (initial and residual value considerations). Consideration is also given to risk mitigation measures to protect the Company, such as third-party guarantees, supporting collateral and security, robust legal documentation, financial covenants and hedging. Transactions are further assessed using an internal pricing model which measures both the return on equity and the risk adjusted return on capital against a series of benchmarks to ensure risks are appropriately priced.

Portfolio asset quality monitoring is based on a number of measures, including expected loss, financial covenant monitoring, security revaluations, pricing movements and external input from rating agencies and other organisations. Should particular exposures begin to show adverse features such as payment arrears, covenant breaches or business trading performance that is materially worse than expected at the point of lending, a full risk reappraisal is undertaken.

Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

The class of financial instruments that is most exposed to credit risk in the Company is finance agreements, comprising loans and advances to customers and net investment in finance leases (note 13).

	2013 £000	2012 £000
Loans and advances to customers	1,500,231	1,919,670
Net investment in finance leases	733,099	586,745
	2,233,330	2,506,415

All exposures are with corporate and other customers.

For the Company, 97.1% (2012: 94%) of the balances are secured. The main types of security are charges over assets being financed such as property and vehicles.

Arrears and impairment

Asset quality remains good with 2.9% of lending balances in arrears at 31 December 2013 (2012: 6.0%).

Payment due status:

	2013 £000	%	2012 £000	%
Not impaired				
Neither past due nor impaired	2,332,853	97.1	2,691,594	94.0
Past due up to 3 months but not impaired	-	-	-	-
	2,332,853	97.1	2,691,594	94.0
Impaired				
Past due up to 3 months	54,697	2.3	68,122	2.4
Past due 3 to 5 months	-	-	1,406	0.0
Past due over 5 months	14,150	0.6	102,162	3.6
	2,401,700	100	2,863,284	100
Impairment loss allowances	(168,370)		(356,869)	
Total	2,233,330		2,506,415	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT DISCLOSURES (continued)

Credit risk (continued)

The carrying value of the repossessed stock at 31 December 2013 (buses, coaches and commercial stock) was £nil (2012: £100,058). The Company sells the repossessed stock at market price rather than using them in its operations.

Interest accrued on impaired assets at 31 December 2013 was £2,875,019 (2012: £3,921,155).

The portfolio is subject to regular monitoring for potential impairment. This monitoring includes review of each counterparty's repayment record and examination of new financial and business sector information relevant to each counterparty. In the event of deterioration in a counterparty's creditworthiness being identified through this monitoring a thorough analysis is undertaken to establish the full circumstances surrounding the cause and severity of that deterioration. Where this indicates a reasonable expectation that future anticipated cashflows may not be received, the asset originating these doubtful cashflows is deemed to be impaired. Typical reasons for an impairment charge being made include counterparty insolvency, failure to make agreed repayments or a breach of a covenant included within facility documentation.

No significant lease agreements and loans that would have been past due or impaired, have had their terms materially renegotiated in the current year (2012: £Nil).

Lease agreements and loans up to 3 months past due have a collective impairment loss allowance set aside to cover losses on loans which are in the early stages of arrears.

Impairment loss allowances on trade and other receivables

	2013	2012
	£000	£000
At 1 January :		
Individual	68,969	50,743
Collective	287,900	46,475
Total impairments	356,869	97,218
(Credit) / charge for the year	(134,166)	306,339
Write offs	(54,333)	(46,688)
Total (decrease) / increase in year	(188,499)	259,651
At 31 December		
Individual	137,212	68,969
Collective	31,158	287,900
Total impairments	168,370	356,869

Market risk

Market risk is the risk of a reduction in economic value or reported income resulting from a change in the variables of financial instruments including interest rate, equity, credit spread, property and foreign currency risks. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value, and manages market risk accordingly. Details of the market risk management policy are disclosed in the Santander UK plc Annual Report – Risk Management, which does not form part of this Report.

Market risks arising in the operations of the Company which are part of Santander UK plc's Corporate Banking division, are substantially transferred from the originating business to Asset and Liability Management ("ALM") within Santander UK plc's Group Infrastructure, where they can be managed in conjunction with exposures arising from the funding, liquidity or capital management activities of ALM.

Funds received with respect to deposits taken are lent on to Group Infrastructure on matching terms as regards interest rate re-pricing and maturity. Similarly, loans are funded through matching borrowings from Group Infrastructure. Retained market risk exposure is minimal, and is managed within limits approved by the Head of Wholesale Risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT DISCLOSURES (*continued*)

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and mortgage prepayment rates. The exposure in this area is hedged with Santander UK plc's Global Banking & Markets ("GB&M") division using fixed rate loans and other appropriate instruments. Value at Risk (VaR) is a measurement of the maximum amount likely to be lost from existing risk positions as a result of movement in market rates and prices. This is calculated over a particular period and at a particular confidence level.

Santander UK plc GB&M uses a variance-covariance VaR model, based on historical volatility and correlation data, to a 99% confidence level over a one month holding period time horizon.

Although it is a useful tool in measuring risk, VaR does contain some limitations.

1. It does not accurately measure extreme events.
2. The use of a 99% confidence level does not by definition include losses beyond this level of confidence.
3. It relies on the historical volatility and correlation data being similar to the volatility and correlation positions going forward.

The interest rate value at risk exposure for the Company at 31 December 2013 and at 31 December 2012 was immaterial.

Foreign exchange risk

The Company clears its positions with the Santander UK group in accordance with the policy of transferring market risk positions to GB&M wherever possible. As part of its normal operations Treasury borrows and invests funds in currencies other than Sterling. The foreign exchange risks of these activities are hedged within Santander UK Group plc's limits.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company is dependent on loans from its immediate parent undertaking and the level of the third party debt is not considered to be material.

The day to day management of liquidity is the responsibility of ALM, which provides funding to and takes surplus funds from the Company as required.

Maturities of financial liabilities

The following tables analyse the Company's non-derivative liabilities into relevant maturity groupings based on the remaining period at the balance sheet date (to contractual maturity).

These have been drawn on the discounted contractual maturities of financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

2013	Repayable on demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Due to suppliers	10,454	-	-	-	-	10,454
Due to group undertakings	5,837,397	-	-	-	-	5,837,397
Other	200,716	4,023	1,990	40,369	-	247,098
Corporation tax	-	-	37,021	-	-	37,021
Total liabilities	6,048,567	4,023	39,011	40,369	-	6,131,970

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT DISCLOSURES (continued)

Maturities of financial liabilities (continued)

2012	Repayable on demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Due to suppliers	8,635	-	-	-	-	8,635
Due to group undertakings	5,126,360	-	-	-	-	5,126,360
Other	11,344	11,075	21,929	157,992	51,557	253,897
Corporation tax			(638)			(638)
Total liabilities	5,146,339	11,075	21,291	157,992	51,557	5,388,254

The maturity analyses below for derivative financial liabilities include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. These consist of foreign exchange forward contracts which are used to economically hedge the Group's exposure to exchange rates.

The table has been drawn up based on discounted net cash outflows on the derivative instruments settled on a net basis, and the undiscounted gross outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amounts disclosed have been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

2013	Less than 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Derivative financial instruments						
Assets	-	-	-	-	-	-
2012	Less than 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Derivative financial instruments						
Liabilities	-	-	1.2	-	-	1.2

Financial assets are used to meet liquidity needs, by utilising the cash inflows arising from these assets, sale and repurchase arrangements or outright sales. Santander UK plc has diverse funding resources and credit facilities in place to augment these cash flows when needed.

Derivatives

A derivative is an agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other financial prices. Derivatives are an efficient and cost effective means of managing risk and are an essential tool in treasury management. Derivatives are used primarily for balance sheet management purposes.

Types of derivatives and uses

Derivatives and fixed rate loans are used by the Company to manage interest rate exposures arising from fixed rate lending. Forward rate agreements are used by the Company to manage risk arising from foreign currency exposures. All forward rate agreements are undertaken with Santander UK plc.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT DISCLOSURES (continued)

Fair values of financial assets and liabilities

The tables below summarise the classification of the carrying amounts of the Company's financial assets and financial liabilities as at 31 December 2013 and 31 December 2012.

2013	Derivatives £000	Loans and receivables £000	Total £000
Financial assets			
Loans and advances to customers	-	2,233,330	2,233,330
Total financial assets	-	2,233,330	2,233,330
Non financial assets			3,955,352
Total assets			6,188,682
Financial liabilities			294,573
Non financial liabilities			5,837,397
Total liabilities			6,131,970
2012	Derivatives £000	Loans and receivables £000	Total £000
Financial assets			
Loans and advances to customers	-	2,506,415	2,506,415
Total financial assets	-	2,506,415	2,506,415
Non financial assets			2,814,458
Total assets			5,320,873
Financial liabilities			
Derivative financial instruments	1,154	-	1,154
Total financial liabilities	1,154	-	1,154
Non financial liabilities			5,388,254
Total liabilities			5,389,408

The following table summarises the carrying amount and fair values as at 31 December 2013 of those financial assets and liabilities not presented on the Company balance sheet at their fair value (loans and receivables and liabilities at amortised cost).

	2013 Carrying value £000	2013 Fair Value £000	2012 Carrying value £000	2012 Fair Value £000
Financial assets				
Loans and advances to customers	2,233,330	2,318,347	2,506,415	2,655,855
Net investment in finance leases	733,099	738,973	586,745	604,460
	2,966,429	3,057,320	3,093,160	3,260,315
Financial liabilities				
Due to suppliers	10,454	10,454	8,635	8,635
Other creditors	284,119	284,119	253,259	253,259
	294,573	294,573	261,894	261,894

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

4. RISK MANAGEMENT DISCLOSURES (continued)

Net investment in finance leases

The fair value of floating rate assets is approximately equal to their carrying amount. The estimated fair value of fixed rate assets is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

5. PROFIT / (LOSS) FROM OPERATIONS

Profit / (loss) from operations is stated after charging / (crediting) the following:

	2013	2012
	£000	£000
Impairment losses on investments	-	78,647
Depreciation of own fixed assets and operating lease assets (note 10)	97	283
Loss on disposal of property, plant and equipment	-	349
Loss on disposal of operating lease assets	-	178
Auditor's remuneration (see below)	11	12

Depreciation of operating lease assets of £22,000 (2012: £109,000) is included in cost of sales.

Directors' emoluments and interests

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the immediate UK parent company, Santander UK plc. No emoluments were paid by the Company to the directors during the year (2012: Nil)

Auditor remuneration

The audit fee for the current and prior year has been paid on the Company's behalf by its immediate UK parent undertaking, Santander UK plc, in accordance with company policy, for which no recharge has been made. The audit fee payable to the Company's auditor for the audit of the Company's annual accounts for the current year is £11,475 (2012: £11,700).

Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2013	2012
	No	No
Office, sales support and management	35	35
Total	35	35

The aggregate payroll costs of the above were:

	2013	2012
	£000	£000
Wages and salaries	1,848	1,606
Social security costs	198	198
Other pension costs	150	145
Total	2,196	1,949

6. FINANCE INCOME

	2013	2012
	£000	£000
Dividends received from subsidiary undertakings	2,068	92,354
Amounts receivable from other group undertakings	26,834	37,139
Total	28,902	129,493

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

7. FINANCE COSTS

	2013	2012
	£000	£000
Amounts payable to other group undertakings	69,786	85,472
Other finance costs	9,053	1,981
Total	78,839	87,453

8. OTHER (GAINS) AND LOSSES

	2013	2012
	£000	£000
Profit on disposal of investments	-	(2,646)
Amortisation of adjustment to hedged item	16,514	20,625
Total	16,514	17,979

9. TAX

	2013	2012
	£000	£000
Current tax:		
UK corporation tax on profit / (loss) of the year	37,098	(64,844)
Adjustments in respect of prior years	210	(5,367)
Total Current tax	37,308	(70,211)
Deferred tax:		
Origination and reversal of temporary differences	386	749
Change in rate of UK Corporation tax	9	61
Adjustments in respect of prior years	48	4,469
Total Deferred tax	443	5,279
Tax charge / (credit) on profit / (loss) for the year	37,751	(64,932)

UK corporation tax is calculated at 23.25% (2012: 24.5%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 24% to 23% with effect from 1 April 2013.

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax to 21% effective from 1 April 2014, and 20% effective from 1 April 2015, was enacted on 17 July 2013.

As the change in rates were substantively enacted prior to 31 December 2013, they have been reflected in the deferred tax asset at 31 December 2013.

The tax on the Company's profit/ (loss) before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2013	2012
	£000	£000
Profit / (loss) before tax	162,998	(248,061)
Tax calculated at a rate of 23.25% (2012: 24.5%)	37,897	(60,775)
Non-taxable dividend income	(481)	(22,627)
Non deductible expenses	67	19,307
Effect of changes in tax rate on deferred tax provisions	9	61
Adjustment to prior year provisions	259	(898)
Tax charge / (credit) for the year	37,751	(64,932)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

10. PROPERTY, PLANT, EQUIPMENT AND OPERATING LEASE ASSETS

2013	Leasehold Property £000	Fixtures & Fittings £000	Operating Lease Assets £000	Total £000
Cost				
At 1 January 2013	4,684	1,884	280	6,848
At 31 December 2013	4,684	1,884	280	6,848
Accumulated depreciation				
At 1 January 2013	1,474	1,852	138	3,464
Charge for year	48	27	22	97
At 31 December 2013	1,522	1,879	160	3,561
Net book value				
At 1 January 2013	3,210	32	142	3,384
At 31 December 2013	3,162	5	120	3,287

2012	Leasehold Property £000	Fixtures & Fittings £000	Motor Vehicles £000	Operating Lease Assets £000	Total £000
Cost					
At 1 January 2012	4,684	2,453	2	854	7,993
Additions	-	-	-	-	-
Disposals	-	(569)	(2)	(574)	(1,145)
Transfers	-	-	-	-	-
At 31 December 2012	4,684	1,884	-	280	6,848
Accumulated depreciation					
At 1 January 2012	1,420	1,953	1	425	3,799
Disposals	-	(221)	(1)	(396)	(618)
Charge for year	54	120	-	109	283
Transfers	-	-	-	-	-
At 31 December 2012	1,474	1,852	-	138	3,464
Net book value					
At 1 January 2012	3,264	500	1	429	4,194
At 31 December 2012	3,210	32	-	142	3,384

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments:

	2013 £000	2012 £000
Within 1 year	50	76
Between 1-5 years	-	49
Total	50	125

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

11. INVESTMENTS

Investment in Subsidiaries	2013 £000	2012 £000
Cost or valuation		
At 1 January	212,521	213,061
Adjustment to deferred consideration	-	(540)
At 31 December	212,521	212,521
Impairment		
At 1 January	101,156	22,509
Impairment for the year	-	78,647
At 31 December	101,156	101,156
Net book value		
At 1 January	111,365	190,552
At 31 December	111,365	111,365

Details of the principal subsidiaries, as at the year-end, which are all 100% directly owned and all registered in England and Wales, are as follows:

Name	Trade	Year End
A & L CF March (5) Limited	Lessors – dormant	31 March
A & L CF March (6) Limited	Lessors – dormant	31 March
A & L CF June (1) Limited	Lessors	30 June
A & L CF June (2) Limited	Lessors	30 June
A & L CF June (3) Limited	Lessors	30 June
A & L CF June (8) Limited	Lessors – in liquidation	30 June
A & L CF September (3) Limited	Lessors – dormant	30 September
A & L CF September (4) Limited	Lessors	30 September
A & L CF September (5) Limited	Lessors – in liquidation	30 September
A & L CF December (1) Limited	Lessors – dormant	31 December
Santander Asset Finance (December) Limited	Lessors	31 December
A & L CF December (10) Limited	Lessors – dormant	31 December
A & L CF December (11) Limited	Lessors – dormant	31 December
Sovereign Spirit Limited (*)	Lessors – closed branch	31 December
A & L CF (Guernsey) Limited (**)	Lessors	31 December
A & L CF (Jersey) Limited (***)	Lessors	31 December
ALCF Investments Limited	Lessors – in liquidation	31 December
Hansar Finance Limited	Lessors – in liquidation	31 December

* Incorporated in Bermuda and registered in England and Wales as an overseas branch.

** Incorporated in Guernsey and registered in England and Wales as an overseas branch.

*** Incorporated in Jersey and registered in England and Wales as an overseas branch.

As permitted under the Companies Act 2006, details of the company's dormant subsidiaries are not given.

During the year, the following joint venture interests which were 50% directly owned, were disposed of. There was no gain or loss arising on the transactions:

Name	Trade	Year End
Charta Leasing No 1 Limited	Lessors	30 September
Charta Leasing No 2 Limited	Lessors	31 December

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

12. TRADE AND OTHER RECEIVABLES

	2013 £000	2012 £000
Non current		
Finance agreements	2,232,603	1,847,679
	2,232,603	1,847,679
Current		
Finance agreements	727	658,736
Amounts owed from related parties (note 16)	3,805,747	2,650,944
Other receivables	1,544	342
	3,808,018	3,310,022
Total trade and other receivables	6,040,621	5,157,701

13. FINANCE LEASES

Finance leases as lessor

The Company enters into finance lease arrangements with customers in the commercial and public sectors.

	Gross investment in the lease		Present value of minimum lease payments	
	2013 £000	2012 £000	2013 £000	2012 £000
Less than one year	219,754	144,691	203,123	132,400
Later than one year but less than five years	489,276	391,297	452,248	358,057
Later than five years	84,044	105,228	77,728	96,288
	793,074	641,216	733,099	586,745
Less:				
Unearned finance income	(44,085)	(41,668)		
Unguaranteed residual value accruing to the benefit of the lessor	(14,498)	(11,629)		
Provision for uncollectible minimum lease payments	(1,392)	(1,174)		
Net investments in finance leases	733,099	586,745		
Non-current			529,976	454,345
Current			203,123	132,400
			733,099	586,745

14. OTHER ASSETS

	2013 £000	2012 £000
Unamortised de-designated fair value macro hedge	33,321	47,892

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

15. CAPITAL

The Company's immediate UK parent company Santander UK plc adopts a centralised capital management approach, based in an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK group. Disclosures relating to the Group's capital management can be found in the Santander UK plc Annual Report which does not form part of this Report.

The Company, along with certain other subsidiaries of Santander UK plc, is a party to a capital support deed dated 14 December 2012 with Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited (each a "regulated entity"). The Capital Support Deed supports a core UK group for the purposes of section 10 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") of the FSA Handbook. Under section 10.8 of BIPRU, exposures of each regulated entity to other members of the core UK group, including the Company, are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources or repayment of liabilities to a regulated entity to ensure that a regulated entity continues to comply with requirements relating to capital resources and risk concentrations. The amount of any transfer is limited to the sum of the Company's capital resources which would not cause the value of its liabilities to exceed the value of its assets, taking into account all of its contingent and prospective liabilities. The Capital Support Deed also provides that, in certain circumstances, funding received by the Company from other parties to the Capital Support Deed becomes repayable on demand, such repayment being limited to the Company's available resources.

16. RELATED PARTY TRANSACTIONS

Trading activities

Payable to related parties

	2013	2012
	£000	£000
Current tax Group relief	(77,928)	(77,879)
Amounts owed to Group undertakings	5,915,325	5,203,291
	5,837,397	5,125,412

The Company entered into transactions with other Group undertakings as shown in the table below.

	2013	2012
	£000	£000
Amount owed to other Group undertakings		
As at 1 January	5,125,412	4,576,421
Net movements	711,985	548,991
As at 31 December (note 21)	5,837,397	5,125,412

Dividends received from subsidiary undertakings	2,068	92,354
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Interest paid to other Group undertakings	69,786	85,472
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Included in the amounts owed to other Group undertakings is £163,954,120 (2012: £114,255,431) owed to subsidiary undertakings. The remainder of this balance is owed to parent and fellow group undertakings.

Administration expenses

During the year the Company paid administrative cost recharges to other Group undertakings of £9,002,536 (2012: £6,916,218).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

16. RELATED PARTY TRANSACTIONS (*continued*)

Receivable from related parties

	2013 £000	2012 £000
Amounts owed from Group undertakings – other	3,805,747	2,650,944
	3,805,747	2,650,944

Trading activities

The Company entered into transactions with Group undertakings as shown in the table below.

	2013 £000	2012 £000
Amount owed from Group undertakings		
As at 1 January	2,650,944	1,582,158
Net movements	1,154,803	1,068,786
As at 31 December (note 12)	3,805,747	2,650,944

Administration expenses

During the current year the Company received administrative cost recharges from subsidiary undertakings of £2,193,144 (2012: £2,938,935).

17. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2013 £000	2012 £000
Cash on hand	-	-

18. DERIVATIVE FINANCIAL INSTRUMENTS.

2013	Contract or underlying principal amount £000	Assets £000
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Derivatives held for trading:

Currency forwards	-	-
TOTAL	-	-

2012	Contract or underlying principal amount £000	Liabilities £000
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Derivatives held for trading:

Currency forwards	9,747	1,154
TOTAL	9,747	1,154

The derivative financial instruments above are classified as Level 2 within the fair value hierarchy as described in the accounting policies. In the valuation of these derivatives, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cashflows and maturities of the instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

19. ISSUED SHARE CAPITAL

	2013 No	2013 £000	2012 No	2012 £000
Ordinary shares of £0.10 each	206,565,061	20,657	206,565,061	20,657

All issued share capital is classified as equity.

20. DEFERRED TAX ASSET

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised.

Deferred tax assets and liabilities are attributable to the following items:

	Balance sheet		Income statement	
	2013 £000	2012 £000	2013 £000	2012 £000
Deferred tax assets / (liabilities)				
Accelerated tax depreciation	(981)	(1,036)	56	(4,869)
IAS 32 & IAS 39 transitional adjustments	579	899	(320)	(319)
Other temporary differences	490	668	(179)	(91)
	88	531	(443)	(5,279)

The movement on the deferred tax account is as follows:

	2013 £000	2012 £000
At 1 January	531	5,810
Income statement charge (note 9)	(443)	(5,279)
At 31 December	88	531

The deferred tax assets scheduled above have been recognised in the Company on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

21. TRADE AND OTHER PAYABLES

	2013 £000	2012 £000
Non current		
Other creditors	236,056	198,577
	236,056	198,577
Current		
Payable to trade suppliers	10,454	8,635
Accrued liabilities	10,683	13,199
Payable to related parties (note 16)	5,837,397	5,125,412
Other creditors	359	42,121
Corporation tax liability	37,021	310
	5,895,914	5,189,677
Total trade and other payables	6,131,970	5,388,254

The amounts owed to Group undertakings for interest rate products bear commercial rates of interest based on LIBOR. These amounts are unsecured.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

22. PENSIONS

The Company participates in various Santander UK plc group defined benefit and defined contribution pension schemes in operation. Details of the schemes are disclosed in the Annual Report of Santander UK plc. There is no contractual agreement of stated policy for charging the net defined benefit cost of the Santander UK defined benefit schemes. Therefore, in accordance with IAS 19 the defined benefit asset or liability has been recognised in the financial statements of the sponsoring employer of the scheme and the Company accounts for its contributions as a defined contribution scheme. The contribution to be paid by the Company is calculated as the contributions made by Santander UK plc to the schemes in respect of the Company's employees. An amount of £150,000 (2012: £145,000) was recognised as an expense for these contributions and is included in other pension costs within administrative expenses in the income statement.

23. CONTINGENT LIABILITIES

In certain circumstances, the Company guarantees the obligations of its immediate parent company, Santander UK plc in relation to customer deposits. Under these arrangements, the parent issues a counter indemnity permitting offset of customer deposits with lease rental payments due from the customer.

24. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Santander UK plc, a company registered in England and Wales.

The Company's ultimate parent undertaking and controlling party is Banco Santander S.A., a company registered in Spain. Banco Santander S.A. is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the Company is a member.

Copies of all sets of group accounts, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.