

**SANTANDER ASSET FINANCE plc**

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

**ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2014**

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## **SANTANDER ASSET FINANCE plc - 1533123**

### **Strategic report**

The Directors submit the strategic report together with their directors' report and the audited financial statements for the year ended 31 December 2014.

### **Principal activity**

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

### **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

29 June 2015

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 2014.

### **Principal activity**

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

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.

### **Likely future developments**

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 £60,023,000 (2013: £125,247,000). The directors do not recommend the payment of a final dividend (2013: nil).

### **Directors**

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

A Briggs  
M Castrillo Garcia (resigned 15 May 2015)  
M Evans  
C 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 (continued)**

#### **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.

## **SANTANDER ASSET FINANCE plc - 1533123**

### **Report of the directors (continued)**

#### **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  
29 June 2015

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 2014 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 22. 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 (APB'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 2014 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 Strategic Report and 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  
29 June 2015

## SANTANDER ASSET FINANCE plc - 1533123

### FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### Income Statement

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Revenue		83,402	112,280
Cost of sales		(76)	(22)
<b>GROSS PROFIT</b>		<b>83,326</b>	<b>112,258</b>
Administrative expenses		(11,095)	(16,491)
Net impairment gains and losses		48,762	133,682
<b>PROFIT FROM OPERATIONS</b>	5	<b>120,993</b>	<b>229,449</b>
Finance income	6	27,288	28,902
Finance costs	7	(61,668)	(78,839)
Loss on disposal of subsidiary undertakings		(912)	-
Other gains and losses	8	(10,869)	(16,514)
<b>PROFIT BEFORE TAX</b>		<b>74,832</b>	<b>162,998</b>
Tax	9	(14,809)	(37,751)
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>60,023</b>	<b>125,247</b>

All amounts above were generated from continuing operations.

The accompanying notes form an integral part of the accounts.

#### Statement of Comprehensive Income

For the year ended 31 December 2014

There is no comprehensive income or expense in either the current or previous financial year other than the profit 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**

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2014**

**Statement of Changes in Equity**

For the year ended 31 December 2014

	<b>Issued capital £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
Balance at 1 January 2013	20,657	(89,192)	(68,535)
Profit for the year	-	125,247	125,247
Balance at 31 December 2013 and 1 January 2014	<b>20,657</b>	<b>36,055</b>	<b>56,712</b>
Profit for the year	-	<b>60,023</b>	<b>60,023</b>
<b>Balance at 31 December 2014</b>	<b>20,657</b>	<b>96,078</b>	<b>116,735</b>

The accompanying notes form an integral part of the accounts.



**SANTANDER ASSET FINANCE plc - 1533123**

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2014**

**Balance Sheet**

As at 31 December 2014

	Notes	2014 £000	2013 £000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant, equipment and operating lease assets	10	6,783	3,287
Investments in Group undertakings	11	109,908	111,365
Trade and other receivables	12	1,912,284	2,232,603
Deferred tax asset	19	-	88
		<b>2,028,975</b>	<b>2,347,343</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	12	1,556,825	3,808,018
Cash and cash equivalents	17	-	-
Other assets	14	21,125	33,321
		<b>1,577,950</b>	<b>3,841,339</b>
<b>TOTAL ASSETS</b>		<b>3,606,925</b>	<b>6,188,682</b>
<b>NON CURRENT LIABILITIES</b>			
Other payables	20	(184,527)	(236,056)
Deferred tax liability	19	(89)	-
		<b>(184,616)</b>	<b>(236,056)</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	20	(3,305,574)	(5,895,914)
<b>TOTAL LIABILITIES</b>		<b>(3,490,190)</b>	<b>(6,131,970)</b>
<b>NET ASSETS</b>		<b>116,735</b>	<b>56,712</b>
<b>EQUITY</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
Issued share capital	18	20,657	20,657
Retained profit / (loss)		96,078	36,055
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>116,735</b>	<b>56,712</b>

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 29 June 2015. They were signed on its behalf by: Colin Morley



Director

**SANTANDER ASSET FINANCE plc - 1533123**

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2014**

**Cash Flow Statement**

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
<b>Profit / (loss) for the year</b>		<b>60,023</b>	<b>125,247</b>
<b>NON-CASH ADJUSTMENTS</b>			
Depreciation		127	97
Loss on disposal of property, plant and equipment		117	-
Loss on disposal of investments		912	-
Decrease / (increase) in trade and other receivables		2,573,450	(868,349)
Increase in trade and other payables		55,135	34,246
(Decrease) / increase in accruals		2,490	(2,516)
Decrease in deferred tax asset		176	443
Impairment in investments		546	-
Decrease in derivative financial instruments		-	(1,154)
Decrease in group relief		(77,928)	(49)
		<b>2,555,025</b>	<b>(837,282)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>2,615,048</b>	<b>(712,035)</b>
Tax paid		(36,715)	-
Interest received from subsidiary undertakings		19,806	26,836
Interest paid to parent undertakings		(61,669)	(78,839)
Dividends receivable from subsidiary undertakings		(7,482)	(2,068)
Management charges received from subsidiary and fellow group undertakings		2,079	2,193
Management charges paid to parent undertakings		(9,547)	(9,003)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>2,521,520</b>	<b>(772,916)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividends receivable from subsidiary undertakings		7,482	2,068
Acquisition of operating leases		(3,740)	-
		<b>3,742</b>	<b>2,068</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Redemption of cash advances from parent undertaking		(2,525,262)	-
Receipts of cash advances from subsidiary undertakings		-	770,848
		<b>(2,525,262)</b>	<b>770,848</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents as at 1 January		-	-
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AS AT 31 DECEMBER</b>	17	<b>-</b>	<b>-</b>

The accompanying notes form an integral part of the accounts.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**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 2014, the Company adopted the following new accounting pronouncements and amendments to standards which became effective for financial years beginning on 1 January 2014.

- a) IAS 32 'Financial Instruments: Presentation' - In December 2011, the IASB issued amendments to IAS 32 entitled '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 amendments did not have a material effect on the Company's financial statements.
- b) There are a number of other changes to IFRS that were effective from 1 January 2014. 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' ('IFRS 9') – In July 2014, the IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below.  
Phase 1: Classification and measurement of financial assets and financial liabilities. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.  
Phase 2: Impairment methodology. IFRS 9 fundamentally changes the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. It is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.  
Phase 3: Hedge accounting. These requirements align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.  
The effective date of IFRS 9 is 1 January 2018. For annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. At the date of publication of the Company's financial statements the standard is awaiting EU endorsement and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these financial statements.

## **SANTANDER ASSET FINANCE plc - 1533123**

### **NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014**

#### **1. Accounting policies (continued)**

##### **Future accounting developments (continued)**

- b) IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15') – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2017. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. At the date of publication of these financial statements the standard is awaiting EU endorsement. Whilst it is expected that a significant proportion of the Company's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on 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.

##### **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.

##### **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.

## SANTANDER ASSET FINANCE plc - 1533123

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014

#### 1. Accounting policies (continued)

##### Taxation (continued)

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.

##### 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**1. Accounting policies (continued)**

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**1. Accounting policies (continued)**

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**2. Critical accounting estimates and areas of significant management judgement (continued)**

**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.

**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.

**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.

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 him 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 Approvals Committee and the 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 Board Audit Committee, the Board Risk Committee and the Internal Audit function.



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**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.

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).

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Loans and advances to customers	<b>1,125,403</b>	1,500,231
Net investment in finance leases	<b>786,881</b>	733,099
	<b>1,912,284</b>	2,233,330

All exposures are with corporate and other customers.

For the Company, 48.6% (2013: 97.1%) of the balances are secured. The main types of security are charges over assets being financed such as property and vehicles.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**4. Risk management disclosures (continued)**  
**Credit risk (continued)**

**Arrears and impairment**

Asset quality remains good with 4.6% of lending balances in arrears at 31 December 2014 (2013: 2.9%).

Payment due status:

	2014		2013	
	£000	%	£000	%
<b>Not impaired</b>				
Neither past due nor impaired	1,913,110	95.4	2,332,853	97.1
Past due up to 3 months but not impaired	-	-	-	-
	1,913,110	95.4	2,332,853	97.1
<b>Impaired</b>				
Past due up to 3 months	49,529	2.4	54,697	2.3
Past due 3 to 5 months	7,293	0.4	-	-
Past due over 5 months	35,367	1.8	14,150	0.6
	2,005,299	100	2,401,700	100
Impairment loss allowances	(93,015)		(168,370)	
<b>Total</b>	<b>1,912,284</b>		<b>2,233,330</b>	

The carrying value of the repossessed stock at 31 December 2014 (buses, coaches and commercial stock) was £nil (2013: £nil).

Interest accrued on impaired assets at 31 December 2014 was £3,337,265 (2013: £2,875,019).

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 (2013: £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**

	2014	2013
	£000	£000
At 1 January		
Individual	137,939	68,969
Collective	30,431	287,900
Total impairments	168,370	356,869
(Credit) / charge for the year	(47,713)	(134,166)
Write offs	(27,642)	(54,333)
Total (decrease) / increase in year	(75,355)	(188,499)
At 31 December		
Individual	93,015	137,939
Collective	-	30,431
Total impairments	93,015	168,370

## **SANTANDER ASSET FINANCE plc - 1533123**

### **NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014**

#### **4. Risk management disclosures (continued)**

##### **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.

##### **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 ("GBM") 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 GBM 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 2014 and at 31 December 2013 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**4. Risk management disclosures (continued)**

**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.

<b>2014</b>	<b>Repayable on demand £000</b>	<b>Less than 3 months £000</b>	<b>3 to 12 months £000</b>	<b>1 to 5 years £000</b>	<b>Over 5 years £000</b>	<b>Total £000</b>
Due to suppliers	10,165	-	-	-	-	10,165
Due to group undertakings	3,262,805	-	-	-	-	3,262,805
Other	177,491	2,830	-	21,871	-	202,192
Corporation tax	-	-	14,939	-	-	14,939
<b>Total liabilities</b>	<b>3,450,461</b>	<b>2,830</b>	<b>14,939</b>	<b>21,871</b>	<b>-</b>	<b>3,490,101</b>

<b>2013</b>	<b>Repayable on demand £000</b>	<b>Less than 3 months £000</b>	<b>3 to 12 months £000</b>	<b>1 to 5 years £000</b>	<b>Over 5 years £000</b>	<b>Total £000</b>
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
<b>Total liabilities</b>	<b>6,048,567</b>	<b>4,023</b>	<b>39,011</b>	<b>40,369</b>	<b>-</b>	<b>6,131,970</b>

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.

**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 2014 and 31 December 2013.

**2014**

	<b>Total £000</b>
<b>Financial assets</b>	
Loans and advances to customers	1,125,403
Net investment in finance leases (note 13)	786,881
<b>Total financial assets</b>	<b>1,912,284</b>
Non financial assets	1,694,641
<b>Total assets</b>	<b>3,606,925</b>
<b>Financial liabilities</b>	<b>227,385</b>
<b>Non financial liabilities</b>	<b>3,262,805</b>
<b>Total liabilities</b>	<b>3,490,190</b>

# SANTANDER ASSET FINANCE plc - 1533123

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014

### 4. Risk management disclosures (continued) Fair values of financial assets and liabilities (continued)

2013

	Total £000
Financial assets	
Loans and advances to customers	1,500,231
Net investment in finance leases	733,099
Total financial assets	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

The following table summarises the carrying amount and fair values as at 31 December 2014 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).

	2014 Carrying value £000	2014 Fair Value £000	2013 Carrying value £000	2013 Fair Value £000
<b>Financial assets</b>				
Loans and advances to customers	1,125,403	1,210,960	1,500,231	2,318,347
Net investment in finance leases	786,881	786,881	733,099	738,973
	1,912,284	1,997,841	2,233,330	3,057,320
<b>Financial liabilities</b>				
Due to suppliers	10,165	10,165	10,454	10,454
Other creditors	217,130	217,130	284,119	284,119
	227,295	227,295	294,573	294,573

### 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 from operations

Profit from operations is stated after charging the following:

	2014 £000	2013 £000
Depreciation of own fixed assets and operating lease assets (note 10)	127	97

Depreciation of operating lease assets of £76,000 (2013: £22,000) 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 (2013: Nil)

# SANTANDER ASSET FINANCE plc - 1533123

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014

### 5. Profit from operations (continued)

#### 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 £11,655 (2013: £11,475).

#### Particulars of employees

This company has no employees of its own and any costs it receives are recharged from the group companies.

### 6. Finance income

	2014 £000	2013 £000
Dividends received from subsidiary undertakings	7,482	2,068
Amounts receivable from other group undertakings	19,806	26,834
<b>Total</b>	<b>27,288</b>	<b>28,902</b>

### 7. Finance costs

	2014 £000	2013 £000
Amounts payable to other group undertakings	60,768	69,786
Other finance costs	900	9,053
<b>Total</b>	<b>61,668</b>	<b>78,839</b>

### 8. Other (gains) and losses

	2014 £000	2013 £000
Amortisation of adjustment to hedged item	10,869	16,514
<b>Total</b>	<b>10,869</b>	<b>16,514</b>

### 9. Tax

	2014 £000	2013 £000
<b>Current tax:</b>		
UK corporation tax on profit of the year	14,636	37,098
Adjustments in respect of prior years	(3)	210
<b>Total Current tax</b>	<b>14,633</b>	<b>37,308</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	346	386
Change in rate of UK Corporation tax	(24)	9
Adjustments in respect of prior years	(146)	48
<b>Total Deferred tax</b>	<b>176</b>	<b>443</b>
<b>Tax charge on profit for the year</b>	<b>14,809</b>	<b>37,751</b>

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 23% to 21% with effect from 1 April 2014.

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

As the change in rates were substantively enacted prior to 31 December 2014, they have been reflected in the deferred tax liability at 31 December 2014.

**SANTANDER ASSET FINANCE plc - 1533123**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**9. Tax (continued)**

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

	2014 £000	2013 £000
Profit before tax	74,832	162,998
Tax calculated at a rate of 21.5% (2013: 23.25%)	16,089	37,897
Non-taxable dividend income	(1,609)	(481)
Non deductible expenses	306	67
Non deductible loss on sale of subsidiary undertakings	196	-
Effect of changes in tax rate on deferred tax provisions	(24)	9
Adjustment to prior year provisions	(149)	259
Tax charge for the year	14,809	37,751

**10. Property, plant, equipment and operating lease assets**

2014	Leasehold Property £000	Fixtures & Fittings £000	Operating Lease Assets £000	Total £000
<b>Cost</b>				
At 1 January 2014	4,684	1,884	280	6,848
Additions	-	-	3,740	3,740
Disposals	-	(179)	(280)	(459)
At 31 December 2014	4,684	1,705	3,740	10,129
<b>Accumulated depreciation</b>				
At 1 January 2014	1,522	1,879	160	3,561
Charge for year	46	5	76	127
Disposals	-	(179)	(163)	(342)
At 31 December 2014	1,568	1,705	73	3,346
<b>Net book value</b>				
At 1 January 2014	3,162	5	120	3,287
At 31 December 2014	3,116	-	3,667	6,783
2013	Leasehold Property £000	Fixtures & Fittings £000	Operating Lease Assets £000	Total £000
<b>Cost</b>				
At 1 January 2013	4,684	1,884	280	6,848
At 31 December 2013	4,684	1,884	280	6,848
<b>Accumulated depreciation</b>				
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
<b>Net book value</b>				
At 1 January 2013	3,210	32	142	3,384
At 31 December 2013	3,162	5	120	3,287

The Company enters into operating lease agreements with customers in the commercial and public sectors.

# SANTANDER ASSET FINANCE plc - 1533123

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014

### 10. Property, plant, equipment and operating lease assets (continued)

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

	2014 £000	2013 £000
Within 1 year	449	120
Between 1-5 years	1,794	-
Over 5 years	1,424	-
<b>Total</b>	<b>3,667</b>	<b>120</b>

### 11. Investments

<b>Investment in Subsidiaries</b>	2014 £000	2013 £000
<b>Cost or valuation</b>		
At 1 January	212,521	212,521
Disposals	(1,457)	-
<b>At 31 December</b>	<b>211,064</b>	<b>212,521</b>
<b>Impairment</b>		
At 1 January	101,156	101,156
Impairment for the year	-	-
<b>At 31 December</b>	<b>101,156</b>	<b>101,156</b>
<b>Net book value</b>		
At 1 January	111,365	111,365
<b>At 31 December</b>	<b>109,908</b>	<b>111,365</b>

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:

<b>Name</b>	<b>Trade</b>	<b>Year End</b>
A & L CF March (5) Limited	Lessors – dormant	31 March
A & L CF March (6) Limited	Lessors – dormant	31 March
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 – dormant	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.

A & L CF June (1) Limited was sold on 28 May 2014 for a consideration of £100 realising a loss on disposal of £911,736. ALCF Investments Limited was dissolved on 3 October 2014 the investment in the company was £1; Hansar Finance Limited was dissolved on 23 December 2014 the investment in the company was £546,000.



**SANTANDER ASSET FINANCE plc - 1533123**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2014**

**12. Trade and other receivables**

	2014 £000	2013 £000
<b>Non current</b>		
Finance agreements (note 4)	1,912,284	2,232,603
	<b>1,912,284</b>	<b>2,232,603</b>
<b>Current</b>		
Finance agreements	-	727
Amounts owed from related parties (note 16)	1,554,939	3,805,747
Other receivables	1,886	1,544
	<b>1,556,825</b>	<b>3,808,018</b>
<b>Total trade and other receivables</b>	<b>3,469,109</b>	<b>6,040,621</b>

**13. Finance leases**

**Finance leases as lessor**

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

	<i>Gross investment in the Lease</i>		<i>Present value of minimum lease payments</i>	
	2014 £000	2013 £000	2014 £000	2013 £000
Less than one year	114,155	211,720	109,639	203,123
Later than one year but less than five years	705,138	471,387	677,242	452,248
Later than five years	-	80,971	-	77,728
	<b>819,293</b>	<b>764,078</b>	<b>786,881</b>	<b>733,099</b>
Less:				
Unearned finance income	(46,785)	(44,085)		
Unguaranteed residual value accruing to the benefit of the lessor	15,764	14,498		
Provision for uncollectible minimum lease payments	(1,391)	(1,392)		
Net investments in finance leases	<b>786,881</b>	<b>733,099</b>		
Non-current			109,639	529,976
Current			677,242	203,123
			<b>786,881</b>	<b>733,099</b>

**14. Other assets**

	2014 £000	2013 £000
Unamortised de-designated fair value macro hedge	21,125	33,321

## SANTANDER ASSET FINANCE plc - 1533123

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014

#### 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. From 1 January 2014, section 10.8 BIPRU is replaced by Article 113(6) of the Capital Requirements Regulation.

#### 16. Related party transactions

##### Trading activities

##### Payable to related parties

	2014 £000	2013 £000
Current tax Group relief	-	(77,928)
Amounts owed to Group undertakings	3,262,805	5,915,325
	<b>3,262,805</b>	<b>5,837,397</b>

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

	2014 £000	2013 £000
<b>Amount owed to other Group undertakings</b>		
As at 1 January	5,837,397	5,125,412
Net movements	(2,574,592)	711,985
As at 31 December (note 20)	<b>3,262,805</b>	<b>5,837,397</b>
<b>Dividends received from subsidiary undertakings</b>	<b>7,482</b>	<b>2,068</b>
<b>Interest paid to other Group undertakings</b>	<b>60,768</b>	<b>69,786</b>

Included in the amounts owed to other Group undertakings is £163,560,994 (2013: £163,954,120) 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 £9,546,980 (2013: £9,002,536).

**SANTANDER ASSET FINANCE plc - 1533123**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

**16. Related party transactions (continued)**

**Receivable from related parties**

	2014 £000	2013 £000
Amounts owed from Group undertakings – other (note 12)	1,554,939	3,805,747
	1,554,939	3,805,747

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

	2014 £000	2013 £000
<b>Amount owed from Group undertakings</b>		
As at 1 January	3,805,747	2,650,944
Net movements	(2,250,808)	1,154,803
As at 31 December (note 12)	1,554,939	3,805,747

**Administration costs receivable**

During the current year the Company received administrative cost recharges from subsidiary undertakings of £2,079,211 (2013: £2,193,144).

**17. Cash and cash equivalents**

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

	2014 £000	2013 £000
Cash on hand	-	-

**18. Issued share capital**

	2014 No	2014 £000	2013 No	2013 £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.

**19. Deferred tax**

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	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Deferred tax assets / (liabilities)</b>				
Accelerated tax depreciation	(1,043)	(981)	(62)	56
IAS 32 & IAS 39 transitional adjustments	386	579	(193)	(320)
Other temporary differences	568	490	79	(179)
	(89)	88	(176)	(443)

The movement on the deferred tax account is as follows:

	2014 £000	2013 £000
At 1 January	88	531
Income statement charge (note 9)	(176)	(443)
At 31 December	(89)	88

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## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2014

### 20. Trade and other payables

	2014 £000	2013 £000
<b>Non-current</b>		
Other creditors	184,527	236,056
	<b>184,527</b>	<b>236,056</b>
<b>Current</b>		
Payable to trade suppliers	10,165	10,454
Accrued liabilities	13,173	10,683
Payable to related parties (note 16)	3,262,805	5,837,397
Other creditors	4,492	359
Corporation tax liability	14,939	37,021
	<b>3,305,574</b>	<b>5,895,914</b>
<b>Total trade and other payables</b>	<b>3,490,101</b>	<b>6,131,970</b>

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

### 21. 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.

### 22. 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.