

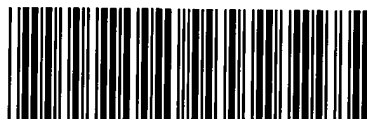
SANTANDER ASSET FINANCE PLC

**Registered in England and Wales
Company Number 01533123**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 DECEMBER 2017**

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STRATEGIC REPORT

The Directors submit the strategic report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2017.

Key performance

Santander Asset Finance plc (the "Company") made a profit for the year of £21,987,000 (2016 restated: £16,516,000). During the year the Company impaired the investment in one of its subsidiary companies, A & L CF December (1) Limited. Further information on this is given in note 11.

Fair review of the Company's Business

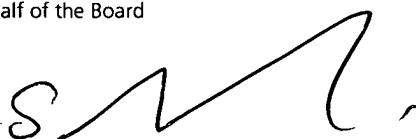
The Santander UK plc group (the "Group") manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business.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

On behalf of the Board



Stephen Affleck
Director

28/6/ 2018

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

REPORT OF THE DIRECTORS

The Directors submit their report together with the strategic report and audited financial statements for the year ended 31 December 2017.

The Company is exempt from the requirement to prepare group financial statements. The Company is a wholly-owned subsidiary of Santander UK plc and is included in the consolidated financial statements of Santander UK plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006. A copy of the group financial statements can be obtained from the registered office of the parent whose address is 2 Triton Square, Regent's Place, London, NW1 3AN.

Principal activities

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

Results and Dividends

The profit for the year was £21,987,000 (2016 restated: £16,516,000).

Likely future developments

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

Dividends

The directors do not recommend the payment of a final dividend (2016: nil).

Post Balance Sheet events

The Company sold its shares in A & L CF March (5) Limited to Santander Equity Investments Limited, a fellow group company, on 13 April 2018.

Directors

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

A Briggs	(resigned 24 October 2017)
M Evans	(resigned 24 October 2017)
S Affleck	
C Sullivan	(appointed 23 October 2017)
A Konter	(appointed 23 October 2017)
G Ashworth	(appointed 23 October 2017)

Statement of directors' responsibilities in respect of the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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.

REPORT OF THE DIRECTORS (continued)

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 during the financial year and at the date of approval of the Report and Financial Statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

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.

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 plc group. The Company has net current liabilities and is reliant on other companies in the Santander UK plc group for a significant proportion of its funding. The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. 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 Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

Independent 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.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board



Stephen Affleck
Director

28/6/2018

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

Independent auditors' report to the members of Santander Asset Finance plc

Report on the audit of the financial statements

Opinion

In our opinion, Santander Asset Finance plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28/6/2018

INCOME STATEMENT

For the years ended 31 December

		2017	Restated 2016
	Note	£000	£000
Revenue		37,140	64,051
GROSS PROFIT		37,140	64,051
Administrative expenses		(3,981)	(7,273)
Net impairment reversal for the year	4	8,993	4,951
PROFIT FROM OPERATIONS	5	42,152	61,729
Finance income	6	17,222	8,278
Finance costs	7	(27,979)	(34,806)
Other losses	8	(6,995)	(14,648)
PROFIT BEFORE TAX		24,400	20,553
Tax	9	(2,413)	(4,037)
PROFIT FOR THE YEAR		21,987	16,516

All amounts above were generated from continuing operations.

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 financial statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Issued share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	20,657	169,359	190,016
Profit for the year	-	21,987	21,987
Balance at 31 December 2017	20,657	191,346	212,003

	Issued share capital £000	Restated Retained earnings £000	Total equity £000
Balance at 1 January 2016	20,657	152,843	173,500
Profit for the year	-	16,516	16,516
Balance at 31 December 2016	20,657	169,359	190,016

The accompanying notes form an integral part of the financial statements.

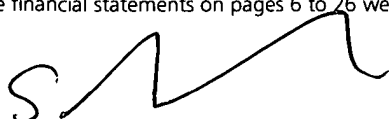
BALANCE SHEET

As at 31 December

	Note	2017 £000	Restated 2016 £000
ASSETS			
NON-CURRENT ASSETS			
Property, plant, equipment and operating lease assets	10	2,978	3,024
Investments in Group undertakings	11	112	236
Trade and other receivables	12	903,379	1,040,520
		906,469	1,043,780
CURRENT ASSETS			
Cash and cash equivalents	17	42,222	61,579
Trade and other receivables	12	943,199	2,039,025
Other assets	14	3,559	7,465
		988,980	2,108,069
TOTAL ASSETS		1,895,449	3,151,849
NON CURRENT LIABILITIES			
Trade and other payables	20	(411)	(4,756)
Deferred tax liability	19	(992)	(669)
		(1,403)	(5,425)
CURRENT LIABILITIES			
Trade and other payables	20	(1,664,930)	(2,941,368)
Corporation tax payable		(17,113)	(15,040)
TOTAL LIABILITIES		(1,683,446)	(2,961,833)
NET ASSETS		212,003	190,016
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	18	20,657	20,657
Retained earnings		191,346	169,359
TOTAL EQUITY		212,003	190,016

The accompanying notes form an integral part of the financial statements.

The financial statements on pages 6 to 26 were approved by the Board of Directors and signed on its behalf by:



Stephen Affleck
Director
28/6/2018

CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2017 £000	Restated 2016 £000
Profit for the year		21,987	16,516
NON-CASH ADJUSTMENTS			
Depreciation		46	46
(Increase) / decrease in trade and other receivables		169,667	293,429
Increase / (decrease) in trade and other payables		13,135	(44,878)
Decrease in accruals		(679)	(8,317)
Increase in deferred tax liability		323	257
Increase in corporation tax liability		2,073	3,780
		184,565	244,316
CASH FLOWS FROM OPERATING ACTIVITIES		206,552	260,832
Interest received from subsidiary undertakings		5,840	8,278
Interest paid to parent undertakings		(27,979)	(34,806)
Dividends receivable from subsidiary undertakings		(11,382)	-
Management charges received from subsidiary and fellow group undertakings		1,653	713
Management charges paid to parent undertakings		(5,562)	(5,562)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		169,122	229,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends receivable from subsidiary undertakings		11,382	-
Decrease in investments in group undertakings		125	-
NET CASH GENERATED FROM INVESTING ACTIVITIES		11,507	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of cash advances from parent undertaking		(199,986)	(262,747)
NET CASH USED IN FINANCING ACTIVITIES		(199,986)	(262,747)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(19,357)	(33,293)
Cash and cash equivalents at start of year		61,579	94,872
CASH AND CASH EQUIVALENTS			
AT END OF YEAR	17	42,222	61,579

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Company is exempt from the requirement to prepare group financial statements. The Company is a wholly-owned subsidiary of Santander UK plc and is included in the consolidated financial statements of Santander UK plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 401 of the Companies Act 2006.

General information

The Company is a public limited company, with its liability limited by shares, incorporated and domiciled in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The functional and presentation currency of the Company is Sterling.

Going concern

The financial statements have been prepared on a going concern basis using the historical cost convention as modified by the revaluation of financial assets. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' statement of going concern set out in the Report of the Directors.

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 profit differs from 'Profit 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 which are not included in 'Profit 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

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 property	over the remainder of the lease up to 75 years
Fixtures and fittings	10 to 15 years
Operating lease assets	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 2017 (CONTINUED)

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (continued)

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.

Hedge accounting

a) Fair value hedge accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the Statement of Comprehensive Income.

Future accounting developments

At 31 December 2017, Santander Asset Finance plc 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 Santander Asset Finance plc:

- a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 sets out the requirements for recognition and measurement of financial instruments. The main new developments of the standard are discussed below.

Classification and measurement of financial assets and financial liabilities: Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Both tests were applied to financial assets at 31 December 2017, and gave rise to no classification and measurement changes for Santander Asset Finance plc.

Impairment: IFRS 9 introduces fundamental changes to the impairment of financial assets measured at amortised cost or at fair value through other comprehensive income, lease receivables and certain commitments to extend credit and financial guarantee contracts. It is no longer necessary for losses to be incurred before credit losses are recognised. Instead, under IFRS 9, an entity always accounts for expected credit losses (ECLs), and any changes in those ECLs. The ECL approach must reflect both current and forecast changes in macroeconomic data over a horizon that extends from 12 months to the remaining life of the asset if a borrower's credit risk is deemed to have deteriorated significantly at the reporting date compared to the origination date. The estimate of ECLs should reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information at the reporting date. Similar to the current incurred credit loss provisioning approach, management will exercise judgement as to whether additional adjustments are required in order to adequately reflect possible events or current conditions that could affect credit risk.

For financial assets, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive. For undrawn loan commitments, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive if the loan is drawn.

An assessment of each facilities' credit risk profile will determine whether they are to be allocated to one of three stages:

- Stage 1: when it is deemed there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12-month ECL – i.e. the proportion of lifetime expected losses resulting from possible default events within the next 12-months – will be applied;
- Stage 2: when it is deemed there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL – i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility – will be applied; and
- Stage 3: when the facility is considered credit impaired, a loss allowance equal to the lifetime ECL will be applied. Similar to incurred losses under IAS 39, objective evidence of credit impairment is required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

Future accounting developments (continued)

The assessment of whether a significant increase in credit risk has occurred since initial recognition involves the application of both quantitative measures and qualitative factors, requires management judgement and is a key aspect of the IFRS 9 methodology.

Transition and impact. IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. The classification, measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application. There is no requirement to restate comparative information.

For the Santander Asset Finance plc, the application of IFRS 9 decreases shareholders' equity at 1 January 2018 by £19m (net of tax), comprised of a £2m decrease arising from the application of the new classification and measurement requirements for financial assets, and a £22m decrease arising from the application of the new ECL impairment methodology, these amounts being partially offset by the recognition of a deferred tax asset of £4m.

- 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 2018. 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. It is expected that a significant proportion of the Santander UK plc group's revenue will be outside the scope of IFRS 15. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 15 on these Financial Statements.
- c) IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. At the date of publication of these Financial Statements the standard is awaiting EU endorsement. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 16 on these Financial Statements.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Some asset and liability amounts reported in the financial statements 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

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.

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 contractual 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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 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 plc 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 plc 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 plc 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 plc 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 plc group Board which approves Santander UK plc group's Risk Appetite for each of the risks below, in consultation with Santander UK plc as appropriate, and approves the strategy for managing risk and is responsible for the Santander UK plc 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 plc 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 plc group. The Santander UK plc 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 the Santander UK plc group. This is provided through the Non-Executive Directors, the Board Audit Committee, the Board 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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Credit risk (continued)

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).

	2017	2016
	£000	£000
Loans and advances to customers	466,038	641,492
Net investment in finance leases (note 13)	873,536	857,903
Finance agreements (note 12)	1,339,584	1,499,395

All exposures are with companies in the commercial and public sectors.

For the Company, 11.9% (2016: 23.8%) 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 in line with management's expectations with 0.1% of lending balances in arrears at 31 December 2017 (2016: 2.6%).

Payment due status:

	2017		2016	
	£000	%	£000	%
Not impaired				
Neither past due nor impaired	1,338,774	99.9	1,470,109	97.4
	1,338,774	99.9	1,470,109	97.4
Impaired				
Past due over 5 months	1,692	0.1	39,162	2.6
	1,340,466	100	1,509,271	100
Impairment loss allowances	(883)		(9,876)	
Total	1,339,584		1,499,395	

The carrying value of the repossessed stock at 31 December 2017 was £nil (2016: £nil).

Interest accrued on impaired assets at 31 December 2017 was £nil (2016: £nil).

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 cash flows may not be received, the asset originating these doubtful cash flows 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 (2016: £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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Impairment loss allowances on trade and other receivables

	2017 £000	Restated 2016 £000
At 1 January		
Individual	9,876	14,827
Total impairment provision	9,876	14,827
Net impairment charge / (reversal) for the year	(8,993)	(4,951)
Total decrease in year	(8,993)	(4,951)
At 31 December		
Individual	883	9,876
Total impairment provision	883	9,876

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 2017 and at 31 December 2016 was immaterial.

Currency risk

The Company clears its positions with the Santander UK plc 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 plc group's limits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. RISK MANAGEMENT DISCLOSURES *(continued)*

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 to contractual maturity at the balance sheet date.

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.

Financial liabilities are measured at amortised cost.

2017	Repayable on demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Total £000
Due to suppliers	30,109	-	-	-	30,109
Due to group undertakings	1,565,166	-	-	-	1,565,166
Other	48,342	14,230	1,743	1,521	65,836
Accruals	4,230	-	-	-	4,230
Corporation tax	-	-	17,113	-	17,113
Total financial liabilities	1,647,847	14,230	18,856	1,521	1,682,454

Restated 2016	Repayable on demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Total £000
Due to suppliers	8,842	-	-	-	8,842
Due to group undertakings	2,983,818	-	-	-	2,983,818
Other	61,014	5,385	2,813	4,756	73,968
Accruals	4,909	-	-	-	4,909
Corporation tax	-	-	15,040	-	15,040
Total financial liabilities	3,058,583	5,385	17,853	4,756	3,086,577

Fair values of financial assets and liabilities

The table below summarise the classification of the carrying amounts of the Company's financial assets and financial liabilities as at 31 December 2017 and 31 December 2016.

	2017 Total £000	2016 Total £000
Financial assets		
Loans and advances to customers	466,038	641,492
Net investment in finance leases (note 13)	873,536	857,903
Amounts due from related parties (note 16)	503,419	1,696,037
Other receivables (note 12)	3,585	9,525
Cash (note 17)	42,222	61,579
Total financial assets	1,888,800	3,266,536
Non-financial assets	6,649	10,725
Total assets	1,895,449	3,277,262
Financial liabilities	1,682,454	3,086,577
Non-financial liabilities	992	669
Total liabilities	1,683,446	3,087,246

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Fair values of financial assets and liabilities (continued)

The following table summarises the carrying amount and fair values as at 31 December 2017 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).

	2017 Carrying value £000	2017 Fair Value £000	Restated 2016 Carrying value £000	Restated 2016 Fair Value £000
Financial assets				
Loans and advances to customers	466,038	492,101	641,492	692,965
Net investment in finance leases (Note 13)	873,536	873,536	857,903	857,903
	1,339,574	1,365,637	1,499,395	1,550,868
Financial liabilities				
Due to suppliers (Note 20)	30,109	30,109	8,842	8,842
Other creditors and accrued liabilities (Note 20)	70,066	70,066	78,877	78,877
	100,175	100,175	87,719	87,719

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 the following:

	2017 £000	2016 £000
Depreciation on owned fixed assets and operating lease assets (note 10)	46	46

Directors' emoluments and interests

The Directors' services to the Company are an incidental part of their duties. 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 (2016: Nil)

Auditors' 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 auditors for the audit of the Company's annual financial statements for the current year is £27,800 (2016: £11,000).

Fees payable to the auditors for non-audit services were nil (2016: nil).

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

	2017 £000	2016 £000
Dividends received from subsidiary undertakings (Note 16)	11,382	-
Interest receivable from other group undertakings (Note 16)	5,840	8,278
Total	17,222	8,278

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7. FINANCE COSTS

	2017 £000	2016 £000
Amounts payable to other group undertakings (Note 16)	27,979	34,806
Total	27,979	34,806

8. OTHER LOSSES

	2017 £000	2016 £000
Amortisation of adjustment to hedged item	3,906	5,575
Other items	3,089	9,073
	6,995	14,648

9. TAX

	2017 £000	Restated 2016 £000
Current tax:		
UK corporation tax on profit of the year	2,425	3,850
Adjustments in respect of prior years	(336)	(70)
Total Current tax	2,089	3,780
Deferred tax:		
Origination and reversal of temporary differences	90	279
Change in rate of UK Corporation tax	(10)	(67)
Adjustment in respect of prior years	243	45
Total Deferred tax	323	257
Tax charge on profit for the year	2,413	4,037

UK corporation tax is calculated at 19.25% (2016: 20.0%) of the estimated assessable profits for the year.

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 18% from 1 April 2020 was enacted on 18 November 2015.

The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the corporation tax rate to 17% from 2020. Since this further change was substantively enacted prior to 31 December 2017, the effects have been reflected in the deferred tax balances at the balance sheet date.

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:

	2017 £000	Restated 2016 £000
Profit before tax	24,400	20,553
Tax calculated at a rate of 19.25% (2016: 20.0%)	4,697	4,110
Non-taxable dividend income	(2,191)	-
Non-deductible expenses	9	19
Effect of changes in tax rate on deferred tax provisions	(10)	(67)
Adjustment to prior year provisions	(92)	(25)
Tax charge for the year	2,413	4,037

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

10. PROPERTY, PLANT, EQUIPMENT

2017	Leasehold Property £000	Fixtures & Fittings £000	Total £000
Cost			
At 1 January 2017	4,684	1,705	6,389
At 31 December 2017	4,684	1,705	6,389
Accumulated depreciation			
At 1 January 2017	1,660	1,705	3,365
Charge for year	46	-	46
At 31 December 2017	1,706	1,705	3,411
Net book value			
At 1 January 2017	3,024	-	3,024
At 31 December 2017	2,978	-	2,978
2016	Leasehold Property £000	Fixtures & Fittings £000	Total £000
Cost			
At 1 January 2016	4,684	1,705	6,389
At 31 December 2016	4,684	1,705	6,389
Accumulated depreciation			
At 1 January 2016	1,614	1,705	3,319
Charge for year	46	-	46
At 31 December 2016	1,660	1,705	3,365
Net book value			
At 1 January 2016	3,070	-	3,070
At 31 December 2016	3,024	-	3,024

11. INVESTMENTS IN GROUP UNDERTAKINGS

Investment in Subsidiaries	2017 £000	2016 £000
Cost or valuation		
At 1 January	211,063	211,063
Disposals	(109,671)	-
At 31 December	101,392	211,063
Impairment		
At 1 January	210,827	210,827
Disposals	(109,671)	-
Impairment for the year	124	-
At 31 December	101,280	210,827
Net book value		
At 1 January	236	236
At 31 December	112	236

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

11. INVESTMENTS IN GROUP UNDERTAKINGS *(continued)*

Investment in Subsidiaries (continued)

Details of the principal subsidiaries, as at the year-end, are as follows:

Name of subsidiaries – Directly held:	Place of incorporation ownership (or registration) and operation	Proportion of ownership interest %	Ultimate proportion of ownership %
A & L CF March (5) Limited	England and Wales	100	100
A & L CF June (2) Limited	England and Wales	100	100
A & L CF June (3) Limited	England and Wales	100	100
A & L CF September (4) Limited	England and Wales	100	100
Santander Asset Finance (December) Limited	England and Wales	100	100
Sovereign Spirit Limited	Bermuda	100	100
A & L CF (Guernsey) Limited	Guernsey	100	100

The impairment for the year relates to A & L CF December (1) Limited - £123,632. A & L CF December (1) Limited was fully impaired in the year and the company was dissolved on 1 November 2017.

Dividends were received in the year from A & L CF December (1) Limited of £11,382,004.

With the exception of those subsidiaries listed below, the registered office address of all the above subsidiaries is 2 Triton Square, Regent's Place, London, NW1 3AN:

A & L CF (Guernsey) Limited	Fourth Floor The Albany, South Esplanade, St Peter Port, Guernsey, Channel Islands, GY1 4NF
Sovereign Spirit Limited	2 Church Street, Hamilton, HM11, Bermuda

12. TRADE AND OTHER RECEIVABLES

	2017 £000	Restated 2016 £000
Non current		
Finance agreements	903,388	1,040,520
	903,388	1,040,520
Current		
Finance agreements	436,195	458,875
Amounts due from related parties (note 16)	503,410	1,570,624
Other receivables	3,585	9,525
	943,190	2,039,024
Total trade and other receivables	1,846,578	3,079,544

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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>	
	2017 £000	2016 £000	2017 £000	2016 £000
Less than one year	369,607	334,805	360,828	324,802
Later than one year but less than five years	502,171	528,383	490,242	512,597
Later than five years	23,013	21,135	22,466	20,504
	894,791	884,323	873,536	857,903
Less:				
Unearned finance income	(31,485)	(36,994)		
Unguaranteed residual value accruing to the benefit of the lessor	12,028	12,494		
Provision for uncollectible minimum lease payments	(1,798)	(1,920)		
Net investments in finance leases	873,536	857,903		
Current			360,828	324,802
Non-current			512,708	533,101
			873,536	857,903

14. OTHER ASSETS

	2017 £000	2016 £000
Financial assets at fair value through profit or loss - unamortised de-designated fair value macro hedge	3,559	7,465

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. The Company has no assets or liabilities measured at fair value that are classified as Level 1.
- Level 2: Quoted prices in non-active markets, 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. The Company has no assets or liabilities measured at fair value that are classified as Level 2.
- 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. Foreign currency hedges are classified as Level 3.

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 plc 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

16. RELATED PARTY TRANSACTIONS

Payable to related parties

	2017 £000	Restated 2016 £000
A & L CF December (10) Limited	-	11,382
A & L CF June (2) Limited	4,672	4,672
A & L CF March (5) Limited	1,867	1,867
A & L CF September (4) Limited	22,072	-
Santander Lending Company	4,605	5,651
Santander UK plc	1,531,563	2,834,446
Sovereign Spirit Limited	387	387
Amounts owed to Group undertakings - total	1,565,166	2,858,405

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

	2017 £000	Restated 2016 £000
Amount owed to other Group undertakings		
As at 1 January	2,858,405	2,929,749
Net movements	(1,293,239)	(71,344)
As at 31 December (note 20)	1,565,166	2,858,405
Dividends received from subsidiary undertakings	11,382	-
Interest receivable from other Group undertakings (Note 6)	5,840	8,278
Interest paid to other Group undertakings (Note 7)	27,979	34,806

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

Included in the amounts owed to other Group undertakings is £28,998,000 (2016: £18,308,000) owed to subsidiary undertakings. The remainder of this balance is owed to parent and fellow group undertakings.

Administrative expenses

During the year the Company paid administrative cost recharges to other Group undertakings of £5,562,301 (2016: £5,562,301).

Receivable from related parties

	2017 £000	2016 £000
A & L CF (Guernsey) Limited	21,789	22,686
A & L CF June (3) Limited	79,479	79,748
A & L CF September (4) Limited	-	25,279
Santander Asset Finance (December) Limited	62,632	103,887
Abbey National Treasury Services plc- group relief	-	17
Santander UK plc	339,510	1,339,007
Amounts owed from Group undertakings - total	503,410	1,570,624

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

	2017 £000	2016 £000
Amount due from Group undertakings		
As at 1 January	1,570,624	1,347,844
Net movements	(1,067,214)	222,780
As at 31 December (note 12)	503,410	1,570,624

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

16. RELATED PARTY TRANSACTIONS *(continued)*

Administration costs receivable

During the current year the Company received administrative cost recharges from subsidiary undertakings of £1,653,188 (2016: £714,039).

17. CASH AND CASH EQUIVALENTS

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

	2017 £000	2016 £000
Cash at bank	42,222	61,579

18. ISSUED SHARE CAPITAL

	2017 No	2017 £000	2016 No	2016 £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 LIABILITY

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	
	2017 £000	2016 £000	2017 £000	2016 £000
Deferred tax assets / (liabilities) – due after more than one year:				
Accelerated tax depreciation	(1,298)	(1,239)	(59)	(50)
IAS 32 & IAS 39 transitional adjustments	-	-	-	(173)
Other temporary differences	305	570	(264)	(34)
	(993)	(669)	(323)	(257)

The movement on the deferred tax account is as follows:

	2017 £000	2016 £000
At 1 January	(669)	(412)
Income statement charge (note 9)	(323)	(257)
At 31 December	(992)	(669)

20. TRADE AND OTHER PAYABLES

	2017 £000	Restated 2016 £000
Non-current		
Other creditors	1,521	4,756
	1,521	4,756
Current		
Payable to trade suppliers	30,109	8,842
Accrued liabilities	4,230	4,909
Payable to related parties (note 16)	1,565,166	2,858,405
Other creditors	64,315	69,212
	1,664,930	2,941,368
Total trade and other payables	1,665,341	2,946,124

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 2017 (CONTINUED)

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. RESTATEMENTS

The following restatements have been made to prior year results as previously reported:

Impairment

An impairment for \$22,328,000 in US Dollars was posted in 2016 in error and corrected as a prior period error in the 2017 accounts.

Income Statement	2016 (original) £000	Reversal of impairment charge	2016 Restated £000
Net impairment (charge) / reversal for the year	(13,166)	18,177	4,951
Tax	(679)	(3,358)	(4,037)
Balance Sheet	2016 (original) £000	Reversal of impairment charge	2016 Restated £000
Trade and other receivables	3,061,368	18,177	3,079,545
Corporation tax payable	(11,682)	(3,358)	(15,040)

23. 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 SA, a company registered in Spain. Banco Santander SA is the parent undertaking of the largest group of undertakings for which group financial statements 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 financial statements are drawn up and of which the Company is a member.

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