COMPANY REGISTRATION NUMBER 1562865

A & L CF DECEMBER (2) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2009

A & L CF DECEMBER (2) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS **PAGE**

A & L CF DECEMBER (2) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

FOR THE YEAR ENDED 31 DECEMBER 2009

Company registration number	1562865
The board of directors	M W Evans C R Morley
Company secretary	R A Hawker
Registered office	Building 3 Floor 2 Carlton Park Narborough Leicester LE19 0AL
Statutory auditor	Deloitte LLP Chartered Accountants & Statutory Auditors Birmingham United Kingdom
Bankers	Alliance & Leicester plc Bridle Road Bootle Merseyside L30 4GB

A & L CF DECEMBER (2) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

The directors present their report and the audited financial statements for A & L CF December (2) Limited, company registration number 1562865 (the "Company"), for the year ended 31 December 2009

RESULTS AND DIVIDENDS

The loss for the year on ordinary activities after taxation amounted to £1,839,659 (2008 profit £944,972) The directors have not recommended a dividend (2008 £Nil)

CONTROLLING PARTY AND PARENT UNDERTAKINGS

The immediate parent undertaking is Alliance & Leicester Commercial Finance plc

On 9 January 2009 the entire share capital of Alliance & Leicester plc was transferred from Banco Santander S A to Abbey National plc On that date Abbey National plc became an intermediate parent undertaking

On 11 January 2010 Abbey National plc changed its name to Santander UK plc

The controlling party Banco Santander S A delegates various authorities to the intermediate parent undertakings of the Company, Santander UK plc (formerly Abbey National plc) and Alliance and Leicester plc and to the immediate parent undertaking Alliance & Leicester Commercial Finance plc These parent undertakings are collectively referred to as associated parent undertakings in this Report and in the notes to financial statements

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of Alliance & Leicester Commercial Finance plc and operates as part of Banco Santander S A 's Corporate Banking Division within the United Kingdom Operation

The Company's principal activities were those of lessors and financiers of assets for the corporate sector The directors do not expect any significant change in the level of business in the foreseeable future

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

As shown in the Company's income statement on page 10, the Company's profit from operations increased during the year compared to the prior year due to a transfer in of lease agreements from fellow Alliance & Leicester Commercial Finance plc subsidiary companies.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES (continued)

The balance sheet on page 12 shows that during the year the Company moved from a net assets position to a net liabilities position Details of amounts owed to the Company's immediate parent undertaking at 31 December 2009 are shown in note 14 to the financial statements

The Santander UK Group manages operations on a divisional basis For this reason, the Company's directors believe that non-financial 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 Santander UK Group which includes the Company, is discussed in the Group's Annual Report, which does not form part of this Report

The Key Performance Indicators (KPIs) for the Company are set out below

Profit from operations
2009 £14,774,520
2008 £ 5,858,178

Customer exposure
2009 £390,115,524
2008 £227,765,450

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 in this report The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements The Company's objectives, policies and processes for managing its capital are described in note 13 to the financial statements

Details of the Company's financial risk management objectives, its financial instruments and hedging activities, and its exposures to credit risk, market risk, liquidity risk and other risks are set out in note 5 to the financial statements

The Company is part of the Santander UK Group The Company has net liabilities and is reliant on other companies in the Santander UK Group for its funding 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 intermediate parent undertaking 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 the Santander UK 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 financial statements

A & L CF DECEMBER (2) LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS

The following persons were directors of the Company during the year and to the date of this report

M W Evans	
C R Morley	
C S Jones	(resigned 16 May 2009)
W H Paterson	(resigned 23 October 2009)

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance with the Company (2008 none)

PRINCIPAL RISKS AND UNCERTAINTIES

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, credit risk and liquidity risk The Company's risks were managed during the year on a group level by the ultimate parent company, Banco Santander S A and the intermediate parent undertaking Santander UK plc

Information specific to this Company in relation to risk is disclosed in note 5 of the financial statements

The Company is financed by loans from its immediate parent undertaking, Alliance & Leicester Commercial Finance 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 the parent company, Santander UK plc, has confirmed that the funding will remain in place for the foreseeable future Santander UK plc is itself exposed to negative impacts on the availability of liquidity and on levels of capital arising out of the current economic climate In confirming the availability of funding to the Company, the Board of Santander UK plc has taken account of its own ability to manage these risks More details on the management of these risks is given in note 5

Residual values are reviewed for impairment in line with the policy of the immediate parent undertaking, Alliance & Leicester Commercial Finance plc and an appropriate provision is recognised in the income statement

DISCLOSURE OF INDEMNITIES

The directors confirm that -

Enhanced third party indemnity provisions 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 Annual Report and Financial Statements A copy of each of the indemnities is kept at the registered office address of Santander UK plc

A & L CF DECEMBER (2) LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors as at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself 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 Section 418 of the Companies Act 2006

STATUTORY AUDITORS

In accordance with sections 485 and 487 of the Companies Act 2006, Deloitte LLP are deemed to have been re-appointed as auditors of the Company

Approved by the board on 16 April 2010 and signed on its behalf by

Colin Richard Morley
Director

A & L CF DECEMBER (2) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2009

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 The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 2006

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs Directors are also required to

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

The directors are responsible for keeping proper accounting records 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF A & L CF DECEMBER (2) LIMITED

We have audited the financial statements of A & L CF December (2) Limited, (the "Company"), for the year ended 31 December 2009 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and the related notes 1 to 18 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 auditors' 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 AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom 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

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 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF A & L CF DECEMBER (2) LIMITED (continued)

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

Matthew Perkins

Matthew Perkins
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham
United Kingdom

23 April 2010

A & L CF DECEMBER (2) LIMITED
(COMPANY REGISTRATION NUMBER 1562865)

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £	2008 £
Revenue		**91,982,515**	18,556,647
Cost of sales		**(74,040,482)**	(11,854,086)
GROSS PROFIT		**17,942,033**	6,702,561
Administrative expenses		**(3,167,513)**	(844,383)
PROFIT FROM OPERATIONS	7	**14,774,520**	5,858,178
Finance costs	8	**(17,326,491)**	(4,390,863)
(LOSS)/PROFIT BEFORE TAX		**(2,551,971)**	1,467,315
Corporation tax income/(expense)	9	**712,312**	(522,343)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF A & L CF DECEMBER (2) LIMITED		**(1,839,659)**	944,972

All of the activities of the Company are classed as continuing

The notes on pages 14 to 30 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

The Company has no comprehensive income or expenses attributable to the equity holders other than the loss (2008 profit) for the current and previous year as set out in the Income Statement

The notes on pages 14 to 30 form part of these financial statements

A & L CF DECEMBER (2) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 January 2009	100	1,131,675	1,131,775
Loss for the year	-	(1,839,659)	(1,839,659)
Balance at 31 December 2009	100	(707,984)	(707,884)

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 January 2008	100	186,703	186,803
Profit for the year	-	944,972	944,972
Balance at 31 December 2008	100	1,131,675	1,131,775

The notes on pages 14 to 30 form part of these financial statements

A & L CF DECEMBER (2) LIMITED
(COMPANY REGISTRATION NUMBER 1562865)

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	2009 £	2008 £
ASSETS			
NON CURRENT ASSETS			
Operating lease assets	10	**254,767,578**	151,423,785
Trade and other receivables	11	**80,578,782**	52,162,579
		335,346,360	203,586,364
CURRENT ASSETS			
Trade and other receivables	11	**99,150,649**	33,692,224
Cash and cash equivalents	15	-	-
		99,150,649	33,692,224
TOTAL ASSETS		**434,497,009**	237,278,588
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	16	**100**	100
Retained (loss) / profit		**(707,984)**	1,131,675
(DEFICIT) / EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF A & L CF DECEMBER (2) LIMITED		**(707,884)**	1,131,775
CURRENT LIABILITIES			
Trade and other payables	18	**435,204,893**	236,146,813
TOTAL EQUITY AND LIABILITIES		**434,497,009**	237,278,588

The notes on pages 14 to 30 form part of these financial statements

Approved by the Board on 14 April 2010 and signed on its behalf by

Colin Richard Morley
Director

A & L CF DECEMBER (2) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £	2008 £
(Loss)/profit for the year		**(1,839,659)**	944,972
NON-CASH ADJUSTMENTS			
Depreciation		**74,040,482**	11,854,086
Loss/(profit) on disposal of operating lease		**13,696,494**	(2,236,885)
Increase in trade and other receivables		**(67,941,096)**	(44,203,328)
(Decrease)/increase in trade payables		**(811,846)**	3,304,558
Increase in accruals		**3,011,076**	4,653,040
Decrease in deferred taxes		**(25,933,532)**	(5,768,707)
		(5,778,081)	(31,452,264)
CASH FLOWS FROM OPERATING ACTIVITIES			
Group relief received from parent undertakings		**7,348,463**	6,617,349
Interest paid to parent undertakings		**(17,326,491)**	(4,390,863)
Management charges paid to parent undertakings		**(3,167,513)**	(844,383)
		(13,145,541)	1,382,103
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(18,923,622)**	(30,070,161)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire operating lease assets		**(74,683,326)**	(83,658,840)
Payments to related parties to acquire operating lease assets		**(137,361,618)**	(77,679,529)
Receipts from sale of operating lease assets		**20,964,175**	8,429,736
		(191,080,769)	(152,908,633)
		(210,004,391)	(182,978,794)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of cash advances from parent undertakings		**210,004,391**	182,978,794
		210,004,391	182,978,794
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents as at 1 January		-	-
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	15	-	-

The notes on pages 14 to 30 form part of these financial statements

A & L CF DECEMBER (2) LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The financial statements for A & L CF December (2) Limited, company registration number 1562865 (the "Company"), for the year were authorised for issue on 16 April 2010 and the Balance Sheet signed on the Board's behalf by Colin Richard Morley The Company is incorporated and domiciled in England & Wales The Company's registered office is shown on page 2

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) The financial statements have also been prepared in accordance with IFRS adopted for use by the European Union In 2009, the Company adopted the following new or revised IFRS

a) IAS 23 'Borrowing Costs' – On 29 March 2007, the IASB issued an amendment to IAS 23 'Borrowing costs' which removes the option to expense borrowing costs incurred during the acquisition, construction or production of a qualifying asset The adoption of the amendment to IAS 23 did not have any impact on the Company's profit or loss or financial position

b) IAS 1 'Presentation of Financial Statements' – On 6 September 2007, the IASB issued an amendment to IAS 1 'Presentation of Financial Statements' which changes the way in which non-owner changes in equity are required to be presented As a result, a 'Statement of Changes in Equity' has been included as a separate primary financial statement showing changes in equity during the periods presented In addition, the Statement of Recognised Income and Expenses has been replaced with a 'Statement of Comprehensive Income' The adoption of the amendment to IAS 1 did not have any impact on the Company's profit or loss or financial position

c) IFRS 2 'Share based payments - vesting conditions and cancellations' – On 17 January 2008, the IASB issued an amendment to IFRS 2 'Share based payments' which requires share option awards lapsing due to a failure to meet the service condition to be treated as cancellations rather than forfeitures The adoption of the amendment to IFRS 2 did not have any impact on the Company's profit or loss or financial position

d) IFRS 7 'Financial Instruments Disclosures - Improving Disclosures about Financial Instruments' On 5 March 2009, the IASB issued an amendment to IFRS 7 'Financial Instruments Disclosures' which requires enhanced disclosures about fair value measurements and liquidity risk Among other things, the amendment
(1) requires disclosure of any change in the method for determining fair value and the reasons for the change,
(2) establishes a three-level hierarchy for making fair value measurements,
(3) requires disclosure for each fair value measurement in the balance sheet of which level in the hierarchy was used and any transfers between levels, with additional disclosures whenever level 3 of the hierarchy is used including a measure of sensitivity to a change in input data,
(4) clarifies that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts, and
(5) requires disclosure of a maturity analysis for derivative financial liabilities The disclosures required by the amendment to IFRS 7 are reported in note 5 to the financial statement.

The principal accounting policies adopted by the Company are set out in note 2

Results and disclosures for the comparative year are on the same basis as the 2009 results

A & L CF DECEMBER (2) LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2. ACCOUNTING POLICIES

Accounting convention

The Company prepares its accounts under the historical cost convention and on the going concern basis The directors continue to adopt the going concern basis as disclosed in the Directors' Report - Statement of Going Concern The principal 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 Operating Lease Assets and Finance Lease Receivables (see below)

Up front arrangement fees on financing agreements with customers are spread on an effective interest rate basis over the expected life of that agreement

Interest expense recognition

Interest expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument

Finance lease agreements

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Finance lease receivables

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the lease 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

Finance lease payables

Assets acquired under finance leases are capitalised at the fair value at the start of the lease, with corresponding obligations being included in other liabilities The finance lease costs charged to the income statement are based on a constant periodic rate as applied to outstanding liabilities

2. **ACCOUNTING POLICIES (continued)**

Operating lease assets

Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciation is provided at rates calculated to write off the cost of the assets, less estimated residual value, on a straight line basis over the estimated useful life

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term

Taxation

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

The tax currently payable is based on taxable profit for the year Taxable profit differs from 'Profit before tax' as reported in the Income Statement because it excludes items of income or expenditure 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 'Profit before tax' The Company's liability for current tax and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date

Deferred tax liabilities are 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 deductible temporary differences can be utilised

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

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 an initial maturity of three months or less

Financial assets

The company classifies all its financial assets as determined at initial recognition as loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market

'Loans and advances to customers' are classed as Loans and Receivables 'Net investment in finance leases' are treated in accordance with the Company's policy on finance lease agreements

Loans and receivables are carried at amortised cost using the effective interest rate method Interest calculated using the effective interest rate method is recognised in the Income Statement

2. ACCOUNTING POLICIES (continued)

Financial liabilities

Non-trading financial liabilities are held at amortised cost Finance costs are charged to the Income Statement using the effective interest rate method

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

Impairment of financial assets

A financial asset, or a group of financial assets, is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets 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

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

2. ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency monetary transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions, and any monetary assets or liabilities are re-translated at year end exchange rates Foreign exchange gains and losses are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges

Changes to IFRS not adopted in the 2009 accounts

The International Accounting Standards Board has published the following IAS, IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Title	Subject	Mandatory for accounting periods starting on or after	Endorsed or when endorsement expected
IAS/IFRS standards			
IAS 24 (revised Nov 2009)	Related Party Disclosures	1 January 2011	To be confirmed
Amendments to IFRS 2 (Jun 2009)	Group Cash-settled Share-based Payment Transactions	See note 1 below	Q1 2010
Improvements to IFRSs 2009 (Apr 2009)	Improvements to IFRSs 2009	See note 2 below	Q1 2010
IFRS 3 (revised Jan 2008)	Business Combinations	1 July 2009	3 Jun 2009
Amendment to IAS 39 (Jul 2008)	Eligible Hedged Items	1 July 2009	15 Sept 2009
IFRS 9	Financial Instruments	1 January 2013	To be confirmed
Amendments to IAS 27 (Jan 2008)	Consolidated and Separate Financial Statements	1 July 2009	3 Jun 2009
Interpretations			
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	Q4 2009(3)
IFRIC 18	Transfers of Assets from Customers	Transfers on or after 1 July 2009	Q4 2009(3)
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010	To be confirmed
Amendment to IFRIC 14	Prepayments of a minimum funding requirement	1 January 2011	To be confirmed

Note 1 The amendments to IFRS 2 in June 2009 to clarify the accounting for group cash-settled share-based payment transactions are effective for annual periods beginning on or after 1 January 2010

2. ACCOUNTING POLICIES (continued)

Changes to IFRS not adopted in the 2009 accounts (continued)

The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 and IFRIC 11 These amendments to IFRS 2 supersede IFRIC 8 and IFRIC 11 and continue to have the same effective date as the original Interpretations (IFRIC 8 was effective for annual periods beginning on or after 1 May 2006 and IFRIC 11 for annual periods beginning on or after 1 March 2007)

Note 2 Improvements to IFRSs 2009 includes amendments to a number of Standards and Interpretations The effective date of all the amendments is either for annual periods beginning on or after 1 July 2009 or 1 January 2010

Note 3 May be applied prior to endorsement as interpretative only, but transitional relief (i e prospective application) will be lost

The Company has not elected to adopt these Standards and Interpretations early in these financial statements The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company

3. 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

Residual values are estimated at the inception of lease agreements and are subsequently reviewed for impairment during the life of the lease agreements Appropriate provisions are recognised in the Income Statement

Impairment provisions

Individual provisions are made in respect of finance and rental agreements where recovery is considered doubtful, a collective provision is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending The provisions are deducted from the net investment in finance agreements The charge in the Income Statement comprises write offs, recoveries and the net movement in provisions 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. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT (continued)

Deferred tax asset

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

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

4. 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, credit risk and liquidity risk The Company manages its risk in line with the central risk management function of the Santander UK 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 his direct reports Delegation of authority is to individuals Formal standing committees are maintained for effective management and oversight Further information can be found in the Santander UK plc Annual Report which does not form part of this report

5. 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' Operational risk is monitored by the independent operational risk teams within Santander UK Group The operational risk team has the overall responsibility for ensuring effective operation of the framework within which operational risk is managed, and for its consistent application across group companies Day to day management of operational risk rests with line managers It is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning

Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Company as and when they fall due 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 are subject to an annual or more frequent review

5. RISK MANAGEMENT DISCLOSURES (continued)

Credit risk (continued)

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

Portfolio asset quality monitoring is based on a number of measures, including expected loss, financial covenant monitoring, security revaluations, pricing movements and external input from rating agencies and other organisations Should particular exposures begin to show adverse features such as payment arrears, covenant breaches or business trading performance that is materially worse than expected at the point of lending, a full risk reappraisal is undertaken Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery

The classes of financial instruments that are most exposed to credit risk in the Company are net investment in finance leases (note 12) and operating lease assets (note 10)

	2009	2008
	£	£
Net investment in finance leases	**135,347,946**	76,341,665
Operating lease assets	**254,767,578**	151,423,785
	390,115,524	227,765,450

For the Company, 100% (2008 100%) of the balances are secured The main types of security are charges over assets being financed such as property and vehicles £Nil (2008 £Nil) of finance and operating leases are secured by bank guarantees

All exposures are with Corporate and other customers

5. RISK MANAGEMENT DISCLOSURES (continued)

Arrears and impairment

Asset quality remains good with 0 5% of lending balances in arrears at 31 December 2009 (2008 4 4%)

Payment due status

	Corporate		2009 Commercial Asset Finance		Total	
	£	%	£	%	£	%
Not impaired						
Neither past due nor impaired	16,255,814	100	388,305,535	99 5	404,561,349	99 5
Past due up to 3 months but not impaired	-		825,903	0 2	825,903	0 2
Impaired						
Past due 3 to 5 months	-		96,282	0 0	96,282	0 0
Past due over 5 months	-		50,537	0 0	50,537	0 0
Individually assessed impairments	-		1,346,528	0 3	1,346,528	0 3
	16,255,814	**100**	**390,624,785**	**100**	**406,880,599**	**100**
Provisions	-		(16,765,075)		(16,765,075)	
Total	**16,255,814**		**373,859,710**		**390,115,524**	

	Corporate		2008 Commercial Asset Finance		Total	
	£	%	£	%	£	%
Not impaired						
Neither past due nor impaired	17,212,527	100	202,538,784	95 3	219,751,311	95 6
Past due up to 3 months but not impaired	-	-	8,644,272	4 1	8,644,272	3 8
Impaired						
Past due 3 to 5 months	-	-	46,919	-	46,919	-
Individually assessed impairments	-	-	1,327,093	0 6	1,327,093	0 6
	17,212,527	**100**	**212,557,068**	**100**	**229,769,595**	**100**
Provisions	-		(2,004,145)		(2,004,145)	
Total	**17,212,527**		**210,552,923**		**227,765,450**	

The fair value of collateral on impaired assets at 31 December 2009 was £784,968 (2008 £Nil)

The carrying value of repossessed stock (buses, coaches and commercial stock) at 31 December 2009 was £Nil (2008 £Nil)

Interest accrued on impaired assets at 31 December 2009 was £6,751 (2008 £3,342)

5. RISK MANAGEMENT DISCLOSURES (continued)

Arrears and impairment (continued)

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 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

£Nil (2008 £Nil) of lease agreements that would have been past due or impaired, have had their terms renegotiated

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

Impairment on loans and advances

	2009	2008
	£	£
At 1 January		
Individual	**260,469**	-
Collective	**1,743,676**	514,494
Total impairments	**2,004,145**	514,494
Charge for the year		
Increase in provisions	**9,394,017**	561,852
Total amounts written off in the year	**9,394,017**	561,852
Amounts transferred in	**5,366,913**	927,799
At 31 December		
Individual	**338,674**	260,469
Collective	**16,426,401**	1,743,676
Total impairments	**16,765,075**	2,004,145

Market risk

Market risk is the potential adverse change in Company income or the value of Company net worth arising from movements in market rates, including interest rates, exchange rates, inflation rates and equity prices 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 Risk Management Policy and Control Framework in the Santander UK plc Annual Report

5. RISK MANAGEMENT DISCLOSURES (continued)

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's Balance Sheet, and from the investment of the Company's reserves Interest rate risk primarily arises in the Company's leasing trade The exposure in this area is hedged with the Santander UK plc Treasury function using fixed rate loans and other appropriate instruments

Changes in interest rates would result in no impact on either the equity of the Company or on the Income Statement Interest is allocated on a lease agreement by lease agreement basis within the Company and all interest rate risk is borne by the immediate parent company, Alliance & Leicester Commercial Finance plc

Equity risk

The Company has no material exposure to equity markets

Liquidity risk

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

The Company is dependent on loans from its immediate parent undertaking

The day to day management of liquidity is the responsibility of the Santander UK plc Treasury function, which provides funding to and takes surplus funds from the Company as required

All liabilities are repayable on demand

6. OPERATING SEGMENTS

In the prior year and in line with the immediate parent undertaking, Alliance & Leicester Commercial Finance plc, the Company elected to adopt IFRS 8 "Operating Segments" earlier than the date required by the International Accounting Standards Board

IFRS 8 requires operating segments to be identified on the basis of internal reports Banco Santander S A manages its operations on a geographical basis As outlined in the Directors' Report the Company operates as part of the Banco Santander S A Group's Corporate Banking Division within the United Kingdom Operation and therefore considers that all of its operations are managed as part of the Corporate Banking Division and further segmental analysis is not necessary

7. PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following

	2009 £	2008 £
Depreciation of operating lease assets	**74,040,482**	11,854,086

The depreciation of operating lease assets is included in cost of sales

Directors' emoluments

The directors received no remuneration for their services to this Company in either the current or the preceding year The directors are also directors of the immediate parent company, Alliance & Leicester Commercial Finance plc and the majority of their activities relate to services carried out in relation to Alliance & Leicester Commercial Finance plc and other Group companies Therefore the directors deem it inappropriate to directly allocate any of their costs to the Income Statement of this Company

Auditors' remuneration

Auditors' remuneration of £8,000 (2008 £3,000) was borne by the immediate parent company, Alliance & Leicester Commercial Finance plc, in both the current and the preceding year

No non-audit fees were borne on the Company's behalf in either the current or preceding year

Particulars of employees

No salaries or wages have been paid to employees, including the directors, during the year or the preceding year The Company had no employees in either the current or the preceding year.

8. FINANCE COSTS

	2009 £	2008 £
Amounts payable to immediate parent undertakings	**17,326,491**	4,390,863

9. CORPORATION TAX INCOME/(EXPENSE)

Components of Corporation tax

	2009	2008
	£	£
Current tax expense		
Current tax expense	**(14,659,124)**	(7,040,308)
Adjustments to current tax of prior period	**452,940**	182,587
Current tax expense	**(14,206,184)**	(6,857,721)
Deferred tax income		
Relating to origination and reversal of temporary differences	**15,363,488**	6,505,945
Adjustments to deferred tax of prior period	**(444,992)**	(170,567)
Deferred tax income	**14,918,496**	6,335,378
Tax income/(expense) reported in income statement	**712,312**	(522,343)

Reconciliation of corporation tax income/(expense) to accounting profit

The effective rate of tax for the year was lower than (2008 higher than) the standard rate of corporation tax in the UK for the year ended 31 December 2009 of 28% (2008 28 5%) where the Company generates substantially all its profits The differences are explained below

	2009	2008
	£	£
(Loss)/profit before tax	**(2,551,971)**	1,467,315
Tax calculated at a rate of 28% (2008 28 5%)	**714,552**	(418,185)
Impact on deferred tax of change in the rate of corporation tax	-	(116,178)
Adjustment to tax expense in relation to prior year	**7,948**	12,020
Disallowable expenditure	**(10,188)**	-
Corporation tax income/(expense)	**712,312**	(522,343)

10. OPERATING LEASE ASSETS

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

	2009 £	2008 £
Cost		
At 1 January	**226,700,677**	18,689,404
Additions	**74,683,326**	83,658,840
Transfers in from Group undertakings	**233,327,766**	142,624,123
Disposals	**(87,150,765)**	(18,271,690)
At 31 December	**447,561,004**	226,700,677
Depreciation		
At 1 January	**75,276,892**	10,557,051
Charge for year	**74,040,482**	11,854,086
Transfers in from Group undertakings	**95,966,148**	64,944,594
Disposals	**(52,490,096)**	(12,078,839)
At 31 December	**192,793,426**	75,276,892
Net book value		
At 1 January	**151,423,785**	8,132,353
At 31 December	**254,767,578**	151,423,785

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

	2009 £	2008 £
Within 1 year	**77,353,408**	43,090,073
Between 1-5 years	**90,480,671**	56,899,998
In more than 5 years	**4,212,265**	942,814
Total	**172,046,344**	100,932,885

11. TRADE AND OTHER RECEIVABLES

	2009 £	2008 £
Non current		
Finance lease receivables	**80,578,782**	52,162,579
Current		
Finance lease receivables	**54,769,164**	24,179,086
Other receivables	**18,164,676**	9,229,861
Deferred tax asset (note 17)	**26,216,809**	283,277
	99,150,649	33,692,224
Total trade and other receivables	**179,729,431**	85,854,803

12. FINANCE LEASES

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

	Gross investment in the lease		*Present value of minimum lease payments*	
	2009 £	2008 £	2009 £	2008 £
Less than one year	**84,971,851**	32,504,511	**54,769,164**	24,179,086
Later than one year but less than five years	**102,423,142**	51,215,073	**65,783,731**	37,505,482
Later than five years	**19,825,944**	19,577,721	**14,795,051**	14,657,097
	207,220,937	103,297,305	**135,347,946**	76,341,665
Less				
Unearned finance income	**(50,549,125)**	(16,127,292)		
Unguaranteed residual value accruing to the benefit of the lessor	**(19,532,839)**	(9,984,249)		
Provision for uncollectible minimum lease payments	**(1,791,027)**	(844,099)		
Net investment in finance leases	**135,347,946**	76,341,665		
Non-current			**80,578,782**	52,162,579
Current			**54,769,164**	24,179,086
			135,347,946	76,341,665

13. CAPITAL

Capital was managed centrally during the year by Santander UK plc Group Disclosures relating to the capital management process can be found in the Santander UK plc Annual Report and Accounts The Company does not have a non-centralised process for managing its own capital

14. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The Company's immediate parent company is Alliance & Leicester Commercial Finance 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 Alliance & Leicester plc is the parent undertaking of the smallest group of undertakings for which 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

Trading activities

Payable to related parties

	2009	2008
	£	£
Current tax Group relief	**14,206,184**	6,857,721
Amounts owed to parent undertakings	**409,433,328**	219,922,941
	423,639,512	226,780,662

The Company entered into transactions with other related parties as shown in the table below

	2009	2008
	£	£
Amount owed to parent undertakings		
As at 1 January	**226,780,662**	42,419,765
Net movements	**196,858,850**	184,360,897
As at 31 December (note 18)	**423,639,512**	226,780,662
Interest paid to parent undertakings	**17,326,491**	4,390,863

The amounts due to related parties are unsecured, repayable on demand and bear interest at market rates

Key management compensation

As detailed in note 7 the Company had no employees in either the current or preceding year and the directors are remunerated through Alliance & Leicester Commercial Finance plc therefore no key management compensation was paid by this Company

Administration expenses

During the current year the Company paid administrative cost recharges to other parent undertakings of £3,167,513 (2008 £844,383)

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

15. CASH AND CASH EQUIVALENTS

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

	2009 £	2008 £
Cash at bank	-	-

16. ISSUED SHARE CAPITAL

	2009 No	2009 £	2008 No	2008 £
Issued and fully paid				
Ordinary shares of £1 each	**100**	**100**	100	100

All issued share capital is classified as equity

17. DEFERRED TAX ASSET

	Balance sheet		Income statement	
	2009 £	2008 £	2009 £	2008 £
Deferred tax asset				
Relating to depreciation	**21,548,938**	(204,950)	**12,436,742**	5,991,209
Relating to provisions	**4,667,871**	488,227	**2,481,754**	344,169
	26,216,809	283,277	**14,918,496**	6,335,378

The movement in the deferred tax account is as follows

	2009 £	2008 £
At 1 January	**283,277**	(5,485,430)
Income statement credit (note 9)	**14,918,496**	6,335,378
Transfer lease agreements from group undertakings	**11,015,036**	(566,671)
At 31 December (Note 11)	**26,216,809**	283,277

18. TRADE AND OTHER PAYABLES

	2009 £	2008 £
Current		
Trade payables	**2,492,712**	3,304,558
Accrued liabilities	**9,072,669**	6,061,593
Payable to related parties (note 14)	**423,639,512**	226,780,662
	435,204,893	236,146,813