

SANTANDER ASSET FINANCE (DECEMBER) LIMITED

Registered in England and Wales
Company Number 01562865

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2019

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 2019.

Business Review and principal activities

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

On 5th June 2019, the Corporate and Commercial Banking Division of Santander UK Group Holdings plc announced the intention to cease writing new business through the Santander Asset Finance legal entities. The Company continued to service its existing book of business but ceased writing new business during the course of 2019.

Santander Asset Finance (December) Limited (the "Company") made a profit for the year of £3,262,416 (2018: £7,537,546).

The Santander UK Group Holdings plc group (the "HoldCo 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 Group Holdings plc group, which include the Company, are discussed in the HoldCo Group's Annual Report which does not form part of this Report (the Company's Annual Report and Financial Statements).

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. Nothing in this Report should be construed as a profit forecast.

S.172 Statement

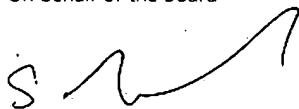
The Directors have acted in a way that they considered, in good faith, to be most likely to promote the long term success of the Company for the benefit of its members, having regard to the following:

- (a) the likely consequences of any decision in the long term: The Company is indirectly owned by Santander UK Group Holdings plc and as such will always operate to the standards set by the Santander UK group. Any decision taken will be aligned to the strategy of the wider Santander UK group and be made in the best interests of all stakeholders. Impacts of any decisions will be determined through ongoing risk assessment conducted with all relevant stakeholders.
- (b) employees: the Company has no employees who are engaged in the business of the Company.
- (c) business relationships with suppliers, customers and others: the Company recognises the importance of building strong relationships with suppliers and customers and actively engages with representatives of contracting parties to ascertain their views and take them into account;
- (d) community and the environment: the Company considers the impact on the environment, both local and more extended, into decision making processes;
- (e) reputation for high standards: the Company's reputation is fundamental to the long term success of the Company and significant effort is expended to ensure that performance and processes attain and wherever possible exceed expectations; and
- (f) the need to act fairly as between members of the Company: the Company is indirectly owned by Santander UK plc and that shareholder is actively involved in key decisions of the Company. Information is shared effectively to ensure that the shareholder is engaged.

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 3 to the financial statements.

On behalf of the Board



S Affleck
Director
18 December 2020

Registered Office Address: Carlton Park, Narborough, Leicester LE19 0AL

REPORT OF THE DIRECTORS

The Directors submit their report together with the strategic report and audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activities of Santander Asset Finance (December) Limited (the "Company") is that of lessors and financiers of assets for the corporate sector.

On 5th June 2019, the Corporate and Commercial Banking Division of Santander UK Group Holdings announced the intention to cease writing new business through the Santander Asset Finance legal entities. The Company continued to service its existing book of business but ceased writing new business during the course of 2019.

Results and dividends

The profit for the year amounted to £3,262,416 (2018: £7,537,546). The Directors do not recommend the payment of a final dividend (2018: £nil).

Likely future developments

The Company intends to continue servicing its existing book of business. No change in the Company's activities is expected.

Post Balance Sheet events

COVID-19

The Company is monitoring the impact of the COVID-19 outbreak on the financial performance of the Company.

The Company is part of the Santander UK Group, which has implemented precautionary measures and protocols based on recommendations from official health authorities, such as the World Health Organization (WHO) and Public Health England. Further such measures may need to be implemented in future, as the situation is complex and is still changing rapidly.

Given the fluidity of the situation, the Company cannot quantify the magnitude and duration of the impact of the COVID-19 outbreak at this time, although there may well be a negative impact on our 2020 financial results. However, the Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date. The Company will continue to monitor and assess its business operations.

Furthermore, as the business is no longer acquiring new customers, COVID-19 will only impact existing customers. As at May 2020, 21 customers had requested payment holidays. The majority were customers with finance leases equating to £7,108,545 of the balance or 32% of the finance lease portfolio. Whilst it is not possible to isolate the financial impact of COVID-19 at the present time, overall IFRS9 provisions increased by £32,219 and RV provisions increased by £1,895,099 as at August 2020. These are not considered to be significant for 2020.

Directors

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

S Affleck	
G Ashworth	(resigned 28 June 2019)
A M Konter	(resigned 23 July 2019)
H Reindl	(appointed 5 August 2019)
D Layhe	(appointed 17 September 2019)

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 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.

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.

REPORT OF THE DIRECTORS (continued)

Qualifying third party indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK Group Holdings plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities were in force during the financial year and at the date of approval of the Report and financial statements. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings plc.

Financial Instruments

The Company's risks are managed on a group level by Santander UK Group Holdings plc.

The financial risk management objectives and policies of the HoldCo Group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the HoldCo Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the HoldCo 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 customer exposure is to corporate and small and medium sized businesses and all balances are secured by charges over assets being financed such as properties and vehicles.

The Company is financed by loans from its immediate parent company (Santander Asset 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 Santander UK Group Holdings plc has confirmed that the funding facility, through Santander Asset Finance plc, will remain in place in the future for at least the period of 12 months from the date of signing the accounts.

Further disclosures regarding principal and financial risk management objectives and policies and the Company's exposure to principal and financial risks can be found in note 3 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 in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, note 3 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 HoldCo group. The Company has net current liabilities and is reliant on other companies in the Santander UK Group Holdings 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 (Santander UK Group Holdings plc) and its 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 parent 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 HoldCo 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.

Brexit and IBOR transition

The process for the UK leaving the EU impacts the economic, legal and regulatory environment for our customers and across the financial services industry. In addition, the use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary. As a substantial portion of the lending is at a fixed rate, the transition to RFR is not expected to have a significant impact.

Statement of disclosure of information to 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.

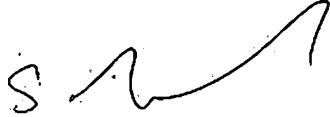
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

REPORT OF THE DIRECTORS (continued)

Independent auditors

In accordance with Sections 485 and 487 of the Companies Act 2006, PricewaterhouseCoopers LLP are re-appointed as auditors of the Company.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'S. Affleck', with a stylized flourish at the end.

Stephen Affleck

Director

18 December 2020

Registered Office Address: Carlton Park, Narborough, Leicester LE19 0AL

Independent auditors' report to the members of Santander Asset Finance (December) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Santander Asset Finance (December) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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: balance sheet as at 31 December 2019; 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 where:

- 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.

Independent auditors' report to the members of Santander Asset Finance (December) Limited (continued)

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 2019 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.



Liam Thompson-Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 December 2020

INCOME STATEMENT

For the years ended 31 December

	Note	2019 £	2018 £
Revenue	4	23,996,943	29,804,339
Cost of sales		(17,266,665)	(20,413,009)
GROSS PROFIT		6,730,278	9,391,330
Administrative expenses		(233,318)	(292,313)
Net (losses)/ recoveries from asset impairments		(1,080,503)	66,082
Loss on disposal of operating leases		(639,052)	(67,823)
PROFIT FROM OPERATIONS	5	4,777,405	9,097,276
Finance costs	6	(1,715,126)	(2,566,339)
PROFIT BEFORE TAX		3,062,279	6,530,937
Tax	7	200,137	1,006,609
PROFIT FOR THE YEAR		3,262,416	7,537,546

All profits during the year 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 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 £	Retained earnings £	Total equity £
Balance at 1 January 2019	100	56,274,631	56,274,731
Profit for the year	-	3,262,416	3,262,416
Balance at 31 December 2019	<u>100</u>	<u>59,537,047</u>	<u>59,537,147</u>

	Issued share capital £	Retained earnings £	Total equity £
Balance at 1 January 2018	100	48,961,692	48,961,792
Profit for the year	-	7,537,546	7,537,546
Adoption of IFRS 9	-	(224,607)	(224,607)
Balance at 31 December 2018	<u>100</u>	<u>56,274,631</u>	<u>56,274,731</u>

The accompanying notes form an integral part of the Financial Statements.

BALANCE SHEET

As at 31 December

	Note	2019 £	2018 £
ASSETS			
NON-CURRENT ASSETS			
Operating lease assets	8	62,735,232	67,160,977
Trade and other receivables	9	14,033,840	18,786,231
Deferred tax asset	14	8,329,386	7,795,279
		<u>85,098,458</u>	<u>93,742,487</u>
CURRENT ASSETS			
Trade and other receivables	9	11,490,791	15,325,339
		<u>11,490,791</u>	<u>15,325,339</u>
TOTAL ASSETS		<u>96,589,249</u>	<u>109,067,826</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	(28,115,303)	(44,190,265)
Corporation tax		(8,936,799)	(8,602,830)
		<u>(37,052,102)</u>	<u>(52,793,095)</u>
TOTAL LIABILITIES		<u>(37,052,102)</u>	<u>(52,793,095)</u>
NET ASSETS		<u>59,537,147</u>	<u>56,274,731</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	100	100
Retained earnings		59,537,047	56,274,631
		<u>59,537,147</u>	<u>56,274,731</u>
TOTAL EQUITY		<u>59,537,147</u>	<u>56,274,731</u>

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

The financial statements on pages 7 to 26 were approved by the Board of Directors and signed on its behalf by:



S Affleck
Director
18 December 2020

CASH FLOW STATEMENT

For the years ended 31 December

	2019 £	2018 £
Profit for the year	3,262,416	7,537,546
NON-CASH ADJUSTMENTS		
Depreciation	17,266,665	19,694,850
Loss on disposal of operating lease	639,052	67,823
Fair value adjustments arising from IFRS 9	-	(224,607)
Changes in operating assets and liabilities		
Decrease in trade and other receivables	8,586,939	9,174,415
Decrease in trade payables	(1,279)	(355,582)
(Decrease)/ increase in accruals	(307,219)	319,474
(Increase)/ decrease in deferred tax asset	(534,107)	884,981
Increase/ (decrease) in corporation tax liability	333,969	(1,944,277)
	<u>8,078,303</u>	<u>8,079,011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	29,246,436	35,154,623
Interest paid to parent undertakings	(1,715,126)	(2,566,339)
Management charges paid to parent undertakings	(191,271)	(267,757)
	<u>(1,906,397)</u>	<u>(2,834,096)</u>
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	27,340,039	32,320,527
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire operating lease assets	(25,978,439)	(29,512,360)
Receipts from sale of operating lease assets	12,498,467	13,180,979
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(13,479,972)	(16,331,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash advances to parent undertakings	(13,860,067)	(15,989,146)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(13,860,067)	(15,989,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents at start of year	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

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.

General information

The Company is a private Company limited by shares, incorporated in the United Kingdom and registered in England and Wales. It is part of Santander UK Group Holdings plc, whose ultimate parent is Banco Santander SA. The registered office address of the Company is Carlton Park, Narborough, Leicester LE19 0AL.

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. 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.

Recent accounting developments

On 1 January 2019, the Company adopted IFRS 16 "Leases" (IFRS 16). IFRS 16 substantially carries forward the lessor accounting requirements from the previous 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. The accounting policy has not led to material effect to the Company's financial statements or its reserves, since lessor accounting is not impacted by the new standard.

Future accounting developments

At 31 December 2019, for Santander Asset Finance (December) Limited, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective.

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 includes interest income from finance lease receivables and rental income from operating leases as well as income from the disposal of recovered assets which are subject to lease arrangements. 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.

The Company's parent, SAF plc, originates business and administers customer lease agreements on its behalf. In accordance with the agency agreement between the Company and its parent, the Company acts as the principal as it controls the assets relating to these lease agreements, assumes all risks associated with them and bears primary responsibility in fulfilling the promise to lease the underlying assets to its customers. The Company recognises all revenue earned in relation to the lease agreements.

Finance costs

Interest expense on financial liabilities are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments over the contractual life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument. The calculation includes all amounts paid or received by the Company that are an integral part of the overall borrowing costs, direct incremental transaction costs related to the financial instrument and all other premiums or discounts.

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 by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax assets and 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.

Financial Instruments

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost.

b) Financial assets and liabilities

Classification and subsequent measurement

The Company classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

At the balance sheet date, financial assets and financial liabilities were measured at amortised cost.

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Based on these factors, the Company classifies its debt instruments into the following measurement category:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in Finance income within 'Revenue' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

The Company's trade and other receivables meet the conditions to be measured at amortised cost and comprise finance lease balances and other receivables.

Finance Leases

In a finance lease, the lessor transfers substantially all the risks and rewards of ownership of an asset to the lessee. It is treated as a loan made to the lessee to finance the purchase 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Finance Leases (continued)

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. The rate of interest is the rate implicit in the lease.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

c) Impairment of debt instrument financial assets

Expected credit losses are recognised on all financial assets at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For more on how ECL is calculated see the Credit risk section on note 3.

Write-off

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. A write-off is only made when all internal avenues of collecting the debt have been exhausted. The write-off policy is regularly reviewed. Write-offs are charged against previously established loss allowances.

Financial liabilities

The financial liabilities of the Company comprise trade and other payables including amounts owed to group undertakings which are classified and subsequently measured at amortised cost. Interest on the balances is calculated using the effective interest rate and reflected in the 'finance costs' line within the income statement.

Cash and cash equivalents

The Company does not hold cash or cash equivalents.

Operating Leases

An operating lease is a lease under which substantially all the risks and rewards of ownership of an asset are not transferred to the lessee. Operating lease rental income is recognised in equal instalments over the period of the leases.

Operating lease assets and depreciation

The cost of additions to operating lease assets is capitalised. Classes of operating lease assets are depreciated on a straight-line basis over their useful life after taking into account anticipated residual values as follows:

Operating lease assets - 3 to 10 years

The carrying value of the operating lease assets are derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of operating lease assets is included in the profit or loss when the item is derecognised.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgements are considered important to the portrayal of the Company's financial condition:

Effective interest rate calculations

Income from financial assets and liabilities held at amortised cost is 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.

Residual values

Residual values are estimated at the inception of lease agreements. Changes in residual value are recorded prospectively during the life of the lease agreements. Appropriate impairment losses are charged to the income statement.

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

Key areas of judgement in accounting estimates

The key judgements made by management in applying the ECL impairment methodology are set out below.

- Definition of default
- Forward-looking information
- Probability weights
- SICR
- Post model adjustments.

For more on each of these key judgements, see the 'Credit risk – Santander UK group level – credit risk management' section of the Risk review.

Sensitivity of ECL allowance

The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios and, depending on the weights chosen, this could have a material effect on the ECL allowance. Had management used different assumptions on probability weights, a larger or smaller ECL charge would arise that could have a material impact on the Company's reported ECL allowance and profit before tax. Sensitivities to these assumptions are set out in the Annual Report of the Company's intermediate parent company (Santander UK plc).

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT

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, market 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.

a) Governance framework

The Company manages its risk in line with the central risk management function of the HoldCo group whose Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the HoldCo group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the HoldCo 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 HoldCo group's strategic objectives.

Authority flows from the HoldCo Board to the Chief Executive Officer and from him to specific individuals. Formal committees are maintained for effective management. 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 HoldCo 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 HoldCo group Board which approves HoldCo 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 HoldCo 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 HoldCo group Risk before final approval by the Executive Risk Control Committee.

The second tier of risk governance – risk control is provided by the HoldCo 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 HoldCo group. The HoldCo 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 HoldCo 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 HoldCo group. This is provided through the Non-Executive Directors, the Board Audit Committee, the Board Risk Committee and the Internal Audit function.

b) 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 HoldCo 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 HoldCo group. The primary purpose of the framework is to define and articulate the HoldCo 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 HoldCo group's risk committee and Board of Directors.

c) Financial risks

1) Credit risk

Credit risk management

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.

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Credit risk management (continued)

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.

In accordance with group policy, the Company manages its portfolios across the credit risk lifecycle, from drawing up risk strategy, plans, budgets and limits to making sure the actual risk profile of the Company's exposures stays in line with plans and the Company's appetite to risk.

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL. More details can be found in the Annual Report of the intermediate parent company (Santander UK plc). For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see note 1 to the Financial Statements.
Non-Performing Loans (NPLs)	The Company uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Company doubt they can keep up with their payments. There are differences between NPL and Stage 3, details of which details can be found in the Annual Report of the intermediate parent company (Santander UK plc). The Company continued to monitor NPLs as a key metric in 2019.

Other metrics

The Company also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration.

Significant Increase in Credit Risk (SICR)

Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12 month ECL. We assess each facility's credit risk profile and use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR to determine which of three stages to allocate them to:

- Stage 1: when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- Stage 2: when there has been a SICR since initial recognition, but no credit impairment has materialised. We apply 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
- Stage 3: when the exposure is considered credit impaired using default criteria set out below. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

Criteria applicable to stage 2**Quantitative criteria**

We use quantitative criteria to identify where an exposure has increased in credit risk. The quantitative criteria we apply are based on whether any increase in the lifetime probability of default ("PD") since the recognition date exceeds a set threshold both in relative and absolute terms. We base the value anticipated from the initial recognition on a similar set of assumptions and data to the ones we used at the reporting date, adjusted to reflect the account surviving to that date. The comparison uses either an annualised lifetime PD, where the lifetime PD is divided by the forecast period, or the absolute change in lifetime PD since initial recognition.

The quantitative criteria used was 30 bps which is an absolute increase in lifetime PD since initial recognition. We also apply a relative threshold of 100% (doubling the PD) across all portfolios.

Qualitative criteria

We also use qualitative criteria to identify where an exposure has increased in credit risk, independent of any changes in PD. For each portfolio, the qualitative criteria used are in forbearance, watch-list - proactive management of NPL in past 12 months and default at proxy origination.

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Credit risk management (continued)

Criteria applicable to stage 3

Definition of default (Credit impaired)

We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than 90 days past due (DPD), or if we have data to make us doubt customers can keep up with their payments i.e. they are unlikely to pay. The data includes where:

- They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan
- Something happens that makes them less likely to be able to pay – such as they lose an important client or contract
- They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
- Their loan is unlikely to be refinanced or repaid in full on maturity.

Backstop criteria

We classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. We do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 days past due) relating to either a SICR or default.

Multiple economic scenarios and probability weights

For all our portfolios, we use five forward-looking economic scenarios. They consist of a central base case, two upside scenarios and two downside scenarios. We use five scenarios to reflect a wide range of possible outcomes in the performance of the UK economy. For example, the Downside 2 scenario reflects the possibility of a recession occurring. We believe that our five scenarios, in particular Downside 1 and Downside 2, reflect the range of outcomes that Brexit may take. Our scenarios are also in line with a number of scenarios that have been produced by, for example, the Bank of England and its disruptive scenario, and other economic forecasters no deal scenarios. As such our scenarios and weights reflect the range of possible outcomes that the UK may face in 2020.

Further information on quantitative and qualitative criteria and multiple economic scenarios is set out in the Annual Report of the Company's intermediate parent company (Santander UK plc).

Sensitivity of ECL allowance

The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios and, depending on the weights chosen, this could have a material effect on the ECL allowance. Had management used different assumptions on probability weights, a larger or smaller ECL charge would have arisen and that could have had a material impact on the Company's reported ECL allowance and profit before tax. Sensitivities to these assumptions are set out in the Annual Report of the Company's intermediate parent company (Santander UK plc).

Measuring ECL

For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly ECL as the discounted value for the relevant forecast month of the product of the following factors:

- Survival rate (SR): The probability that the exposure has not closed or defaulted since the reporting date.
- Probability of Default (PD): The likelihood of a borrower defaulting in the following month, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
- Exposure at Default (EAD): The amount we expect to be owed if a default event was to occur. We determine EAD for each month of the forecast period by the expected payment profile, which varies by product type. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. We vary these assumptions by product type and base them on analysis of recent default data.
- Loss Given Default (LGD): Our expected loss if a default event were to occur. We express it as a percentage and calculate it as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs. We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current PD and loan to value. PD and SR are not required for accounts in default.

Maximum exposure to credit risk

The table below shows the Company's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

	Balance sheet asset		
	Gross amounts £	Loss allowances £	Net exposure £
2019			
Finance lease receivables (within trade and other receivables)	25,496,717	(98,318)	25,398,399
Total	25,496,717	(98,318)	25,398,399

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Maximum exposure to credit risk (continued)

	Balance sheet asset		
	Gross amounts	Loss allowances	Net exposure
	£	£	£
2018			
Finance leases receivables (within trade and other receivables)	34,172,277	(231,480)	33,940,797
Total	34,172,277	(231,480)	33,940,797

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Off-balance sheet exposures are guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that we would have to pay if the guarantees were called on. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the facility, the maximum exposure is the total amount of the commitment.

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 net investment in finance leases (note 10).

	2019	2018
	£	£
Finance lease receivables (within trade and other receivables)	25,398,399	33,940,797

For the Company, 100% (2018: 100%) of the balances are secured. The main types of security are charges over assets being financed such as property and vehicles. All exposures are with companies in the commercial and public sectors.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December.

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Total	Stage 2	Stage 3	Total
	£	£	£	£	£	£	£	£
Exposures								
Finance agreements	20,376,299	5,082,371	38,047	25,496,717	26,083,709	8,040,125	48,443	34,172,277
Total exposures	20,376,299	5,082,371	38,047	25,496,717	26,083,709	8,040,125	48,443	34,172,277
ECL								
Finance agreements	(37,478)	(55,583)	(5,257)	(98,318)	(132,532)	(86,886)	(12,062)	(231,480)
Total ECL	(37,478)	(55,583)	(5,257)	(98,318)	(132,532)	(86,886)	(12,062)	(231,480)
Total net exposures – finance agreements	20,338,821	5,026,788	32,790	25,398,399	25,951,177	7,953,239	36,381	33,940,797

Movements in ECL provision are set out below:

	Non-credit impaired		Credit impaired	
	Stage 1	Stage 2	Stage 3	Total
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	
	£	£	£	£
At 1 January 2019	(132,532)	(86,886)	(12,062)	(231,480)
Income statement charge for the year	(113,116)	(116,228)	(1,173,713)	(1,403,057)
Income statement release for the year	199,702	110,789	12,063	322,554
Net impairment charge	86,586	(5,439)	(1,161,650)	(1,080,503)
Transfers to 12-month ECL	8,468	(8,468)	-	-
Transfers to credit impaired	-	45,210	(45,210)	-
Assets derecognised – written off	-	-	1,213,665	1,213,665
At 31 December 2019	(37,478)	(55,583)	(5,257)	(98,318)

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Credit exposures and corresponding ECL (continued)

	Non-credit impaired		Credit impaired	
	Stage 1	Stage 2	Stage 3	
	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL	Total
	£	£	£	£
At 1 January 2018	(132,658)	(144,635)	-	(277,293)
Income statement charge for the year	(141,112)	(148,783)	(664,725)	(954,620)
Income statement release for the year	242,566	751,797	26,212	1,020,575
Net impairment reversal/ (charge)	101,454	603,014	(638,513)	65,955
Transfers to 12-month ECL	545,265	(545,265)	-	-
Transfers to credit impaired	(516,524)	-	516,524	-
Foreign exchange losses	(130,069)	-	-	(130,069)
Assets derecognised – written off	-	-	109,927	109,927
At 31 December 2018	(132,532)	(86,886)	(12,062)	(231,480)

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

i) 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 exposure in this area is hedged with Santander UK Group Holdings plc's Santander Corporate & Investment Banking ("SCIB") 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.

SCIB 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.

Funds received from customers 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 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 (Santander Asset Finance plc).

3) 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. All liabilities are repayable on demand.

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

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

3) Liquidity risk – Maturities of financial liabilities

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

They 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.

2019	Repayable on demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	Total £
Due to group undertakings	28,042,733	-	-	-	28,042,733
Accrued liabilities	72,570	-	-	-	72,570
Total financial liabilities	28,115,303	-	-	-	28,115,303

2018*	Repayable on demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	Total £
Due to suppliers	1,279	-	-	-	1,279
Due to group undertakings	43,809,197	-	-	-	43,809,197
Accrued liabilities	379,789	-	-	-	379,789
Total financial liabilities	44,190,265	-	-	-	44,190,265

* The prior year financial liability balance of £52,793,095 has been restated to reclassify certain liabilities as non-financial.

Financial instruments

The table below summarises the classification of the Company's assets and liabilities as at 31 December 2019 and 31 December 2018 at their carrying value:

	2019 £	Restated 2018* £
Financial assets		
Finance leases (note 10)	25,398,399	33,940,797
Other receivables (note 9)	126,232	170,773
Total financial assets	25,524,631	34,111,570
Non-financial assets	71,064,618	74,956,256
Total assets	96,589,249	109,067,826
Financial liabilities	28,115,303	44,190,265
Non-financial liabilities	8,936,799	8,602,830
Total liabilities	37,052,102	52,793,095

* The prior year financial liability balance of £52,793,095 has been restated to reclassify certain liabilities as non-financial.

Fair values of financial assets and liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

NOTES TO THE FINANCIAL STATEMENTS

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

Fair value of financial instruments carried at amortised cost

The following table summarises the carrying amount and fair values as at 31 December 2019 and 2018 of those financial instruments carried at amortised cost. It does not include fair value information for financial assets and financial liabilities carried at amortised cost if the carrying amount is a reasonable approximation of fair value.

	2019 Carrying value £	2019 Fair Value £	2018 Carrying value £	Restated 2018* Fair Value £
Financial assets				
Net investment in finance leases (Note 10)	25,398,399	25,832,261	33,940,797	34,711,300

* The fair value of the net investment in finance leases in the prior year was reflected as £33,940,797 and has been restated.

The fair value of financial assets and financial liabilities is approximately equal to their carrying amount except for finance leases where the fair value has been measured as the gross lease receivable less the provision for uncollectible minimum lease payments.

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.

4. REVENUE

Lease income from lease contracts in which the Company acts as lessor is provided in the following table.

	2019 £	2018 £
Finance lease:		
Finance income on the net investment in the lease	2,442,020	3,312,464
Operating leases:		
Net income from operating lease assets	21,554,923	26,491,875
Total revenue	23,996,943	29,804,339

For operating lease assets, there is no income relating to variable lease payments that is not dependant on an index or rate as set out in the terms of the lease.

5. PROFIT FROM OPERATIONS

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

	2019 £	Restated 2018* £
Depreciation of operating lease assets	17,266,665	19,694,850
Loss on disposal of operating lease assets	639,052	67,823
Recoveries from asset impairments	(322,554)	(1,020,575)
Losses from asset impairments	1,403,057	954,620

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

* Recoveries from asset impairments have been revised from £1,020,703 and losses from asset impairments have been updated from £954,621.

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 intermediate UK parent company (Santander UK plc). No emoluments were paid by the Company to the Directors during the year (2018: £nil).

Auditors' remuneration

The audit fee payable to the Company's auditors for the audit of the Company's annual financial statements for the current year is £42,000 (2018: £12,000).

Fees payable to the auditors for non-audit services were nil (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS

5. PROFIT FROM OPERATIONS (continued)

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.

6. FINANCE COSTS

	2019 £	2018 £
Amounts payable to immediate parent undertakings	1,715,126	2,566,339

7. TAX

	2019 £	2018 £
Current tax:		
UK corporation tax on profit of the year	437,330	1,178,028
Adjustments in respect of prior years	(103,360)	(3,122,305)
Total current tax	333,970	(1,944,277)
Deferred tax:		
Origination and reversal of temporary differences	144,503	62,850
Change in rate of UK corporation tax	(15,211)	(627,939)
Adjustments in respect of prior years	(663,399)	1,502,757
Total deferred tax	(534,107)	937,668
Tax credit on profit before tax	(200,137)	(1,006,609)

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profits for the year.

Finance Act 2016 introduced a reduction in the UK corporation tax rate to 17% from 1 April 2020 and this rate has therefore been used to calculate the deferred tax balance at 31 December 2019. However, this rate deduction was reversed in the UK Budget in March 2020. As a result, the UK corporation tax rate is expected to remain at 19%. Since this change in rate was not substantively enacted by the balance sheet date, it is not reflected in the deferred tax asset at 31 December 2019.

The tax on the Company's profit before tax differs from (2018: differs from) the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2019 £	2018 £
Profit before tax	3,062,279	6,530,937
Tax calculated at a rate of 19% (2018: 19%)	581,833	1,240,878
Adjustment to prior year provisions	(766,759)	(1,619,548)
Effect of change in tax rate on deferred tax provision	(15,211)	(627,939)
Tax credit on profit before tax	(200,137)	(1,006,609)

NOTES TO THE FINANCIAL STATEMENTS

8. OPERATING LEASE ASSETS

The Company leases assets which are classified as operating leases because they do not transfer substantially all of the risks and rewards incidental to ownership of the assets. The Company enters into operating lease arrangements with customers in the commercial and public sectors. Refer to the accounting policy in note 1.

	2019 £	2018 £
Cost		
At 1 January	133,147,808	145,828,653
Additions	25,978,439	29,512,360
Disposals	(52,259,395)	(42,193,205)
At 31 December	<u>106,866,852</u>	<u>133,147,808</u>
Accumulated Depreciation		
At 1 January	65,986,831	75,236,384
Charge for year	17,266,665	19,694,850
Disposals	(39,121,876)	(28,944,403)
At 31 December	<u>44,131,620</u>	<u>65,986,831</u>
Net book value		
At 1 January	<u>67,160,977</u>	<u>70,592,269</u>
At 31 December	<u>62,735,232</u>	<u>67,160,977</u>

The loss on disposal of operating lease assets was £639,052 (2018: £67,823 loss).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2019 £	2018 £
Within 1 year	13,787,984	24,580,049
One to two years	11,110,877	12,463,467
Two to three years	7,523,814	8,061,375
Three to four years	4,357,546	6,729,545
Four to five years	1,218,058	2,478,389
More than 5 years	576,615	737,676
Total undiscounted lease payments	<u>38,574,894</u>	<u>55,050,501</u>

9. TRADE AND OTHER RECEIVABLES

	2019 £	2018 £
Non-current		
Finance lease receivables (note 10)	<u>14,033,840</u>	<u>18,786,231</u>
Current		
Finance lease receivables (note 10)	11,364,559	15,154,566
Other receivables	126,232	170,773
	<u>11,490,791</u>	<u>15,325,339</u>
Total trade and other receivables	<u>25,524,631</u>	<u>34,111,570</u>

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCE LEASES

Finance leases as lessor:

The Company enters into finance lease arrangements with customers in the commercial and public sectors. The following table sets out a maturity analysis of finance lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	Minimum lease payments		Present value of minimum lease payments	
	2019	Restated 2018*	2019	2018
	£	£	£	£
Less than one year	11,602,682	15,601,368	11,364,559	15,154,566
One to two years	6,831,565	8,600,112	6,691,358	8,353,502
Two to three years	4,210,085	5,488,965	4,123,680	5,331,569
Three to four years	1,709,693	3,519,594	1,674,605	3,418,669
Four to five years	878,861	1,263,927	860,824	1,227,684
More than five years	697,692	468,813	683,373	454,807
Total gross undiscounted lease payments receivable	25,930,578	34,942,779	25,398,399	33,940,797
Less:				
Unearned finance income	(1,532,965)	(1,734,853)		
Unguaranteed residual value accruing to the benefit of the lessor	1,099,104	964,351		
Provision for uncollectible minimum lease payments	(98,318)	(231,480)		
Net investment in finance leases	25,398,399	33,940,797		
Non-current			14,033,840	18,786,231
Current			11,364,559	15,154,566
			25,398,399	33,940,797

* The 2018 provision for uncollectible minimum lease payments was previously reported within gross lease payment receivable balance and has now been disclosed separately. Unguaranteed residual value accruing to the benefit of the lessor has been restated and the maturity analysis of the gross lease payment receivable balance has been revised. Consequently, the gross lease payment receivable balance has decreased from £35,893,101 to £34,942,779 and the unguaranteed residual value accruing to the benefit of the lessor has been updated from a credit balance of £217,451 to a debit balance of £964,351. Net investment in finance leases remains unchanged.

11. CAPITAL

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

12. RELATED PARTY TRANSACTIONS

The Company entered into transactions with the parent company as shown in the table below:

	2019	2018
	£	£
Payable to group undertakings		
Santander Asset Finance plc	27,988,273	43,809,197
Santander UK plc	54,460	-
	28,042,733	43,809,197
Amount owed to group undertaking		
As at 1 January	43,809,197	62,632,439
Net movements	(15,766,464)	(18,823,242)
As at 31 December (note 13)	28,042,733	43,809,197
Interest paid to parent undertaking (note 6)	1,715,126	2,566,339

NOTES TO THE FINANCIAL STATEMENTS

12. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

As detailed in note 5 the Company had no employees in either the current or preceding year and the Directors are remunerated through Santander UK plc. Therefore, no key management compensation was paid by this Company.

Administration expenses

During the current year the Company paid administrative cost recharges to the parent undertaking of £191,271 (2018: £267,757).

13. TRADE AND OTHER PAYABLES

	2019 £	2018 £
Current		
Trade payables	-	1,279
Payable to group undertakings (note 12)	28,042,733	43,809,197
Accrued liabilities	72,570	379,789
	<u>28,115,303</u>	<u>44,190,265</u>

The fair value approximates the carrying value of the liabilities.

14. DEFERRED TAX ASSET

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

The movement on the deferred tax account was as follows:

	2019 £	2018 £
At 1 January	7,795,279	8,680,260
Adoption of IFRS 9	-	52,687
Income statement credit (note 7)	534,107	(937,668)
At 31 December	<u>8,329,386</u>	<u>7,795,279</u>

Deferred tax assets are attributable to the following items:

	Balance Sheet		Income Statement	
	2019 £	Restated 2018* £	2019 £	2018 £
Deferred tax assets				
Accelerated book depreciation	7,103,834	6,894,881	208,953	(692,252)
IFRS 9 transitional adjustments	37,713	47,418	(9,705)	(5,269)
Other temporary differences	1,187,839	852,980	334,859	(240,147)
	<u>8,329,386</u>	<u>7,795,279</u>	<u>534,107</u>	<u>(937,668)</u>

* The prior year deferred tax asset balance of £7,795,276 in the above table has been restated.

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

15. ISSUED SHARE CAPITAL

	2019 No	2019 £	2018 No	2018 £
Authorised, issued and fully paid				
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

All issued share capital is fully paid and is classified as equity.

NOTES TO THE FINANCIAL STATEMENTS

16. CONTINGENT LIABILITIES

Capital support deed

Santander UK plc is the parent company of the immediate parent (Santander Asset Finance plc). Santander UK plc adopts a centralised capital management approach, based on 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.

At 31 December 2018, Santander UK plc, Abbey National Treasury Services plc, and Cater Allen Limited, which are the three PRA-regulated entities in the Santander UK group, were party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc including the Company. The parties to the Capital Support Deed 2015 were permitted to form a core UK group as defined in the PRA Rulebook. Exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed was to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breached or was at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group permission as supported by the Capital Support Deed 2015 expired on 31 December 2018.

From 1 January 2019 as a result of ring-fencing, Santander UK plc entered into a new Capital support deed with Cater Allen Limited and certain non-regulated subsidiaries including the Company which expires 31 December 2021.

Group Relief

Santander UK Group Holdings plc and its subsidiaries ("Santander UK group") engages in discussion, and co-operates, with HM Revenue & Customs (HMRC) in their oversight of the Santander UK group's tax matters. The Santander UK group adopted the UK's Code of Practice on Taxation for Banks in 2010.

Certain leases in which current or previous members of the Santander UK group is or were the lessor are currently under review by HMRC in connection with claims for tax allowances. Under the terms of the lease agreements, certain members of the Santander UK group, including the company's parent, are fully indemnified in all material respects by the respective lessees for any liability arising from the disallowance of tax allowances plus accrued interest. Whilst legal opinions have been obtained to support the Santander UK group's position, the matter remains uncertain pending formal resolution with HMRC and subsequent litigation. It is anticipated that the matters will move to formal litigation in 2020 as required under the terms of the leases. In return for payments to the lessor companies, the Company has received the benefit of the claims for tax allowances via group relief surrendered from one or more of the lessor companies. If HMRC were successful, the Company would be required to pay up to £182,000 in corporation tax and interest which it would then reclaim from the lessor companies.

17. PARENT UNDERTAKING AND CONTROLLING PARTY

Santander Asset Finance (December) Limited is domiciled in the United Kingdom.

The Company's immediate parent company is Santander Asset Finance 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 intermediate parent undertaking of the smallest Group of undertakings for which 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.

18. SUBSEQUENT BALANCE SHEET EVENTS

The Company is monitoring the impact of the COVID-19 outbreak on the financial performance of the Company.

The Company is part of the Santander UK Group, which has implemented precautionary measures and protocols based on recommendations from official health authorities, such as the World Health Organization (WHO) and Public Health England. Further such measures may need to be implemented in future, as the situation is complex and is still changing rapidly.

Given the fluidity of the situation, the Company cannot quantify the magnitude and duration of the impact of the COVID-19 outbreak at this time, although there may well be a negative impact on our 2020 financial results. However, the Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date. The Company will continue to monitor and assess its business operations.

Furthermore, as the business is no longer acquiring new customers, COVID-19 will only impact existing customers. As at May 2020, 21 customers had requested payment holidays. The majority were customers with finance leases equating to £7,108,545 of the balance or 32% of the finance lease portfolio. Whilst it is not possible to isolate the financial impact of COVID-19 at the present time, overall IFRS9 provisions increased by £32,219 and RV provisions increased by £1,895,099 as at August 2020. These are not considered to be significant for 2020.