

**SANTANDER ASSET FINANCE (DECEMBER)
LIMITED**

**Registered in England and Wales
Company Number 01562865**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2017**

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STRATEGIC REPORT

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

Principal activity

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

Key performance

Santander Asset Finance (December) Limited (the "Company") made a profit for the year of £3,893,995 (2016: £5,255,963).

Fair review of the Company's business

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

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

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in note 3.

On behalf of the Board



S Affleck

Director

27 September 2018

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 2017.

Principal activity

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

Results for the year

The profit for the year amounted to £3,893,995 (2016: £5,255,963).

Dividends

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

Post Balance Sheet events

There are no Post-Balance Sheet events.

Likely future developments

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

Directors

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

| | |
|------------|-----------------------------|
| M Evans | (resigned 24 October 2017) |
| A Mussert | (resigned 24 October 2017) |
| S Affleck | |
| G Ashworth | (appointed 23 October 2017) |
| A M Konter | (appointed 23 October 2017) |

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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.

REPORT OF THE DIRECTORS (continued)

The Company is part of the Santander UK Group. The Company has net current liabilities and is reliant on other Group companies 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 parent Santander UK plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Santander UK plc and group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of both the Company's financial position and of the confirmations by the Directors of Santander UK plc outlined above, the Company's 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.

Financial Instruments

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

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

The class of asset most exposed to credit risk in the Company is trade and other receivables and operating lease assets. 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 directors of Santander UK plc, has confirmed that the funding will remain in place for the foreseeable future.

Residual values are reviewed for impairment in line with the policy of the immediate parent undertaking, Santander Asset Finance plc and an appropriate impairment loss is recognised in the income statement.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 3 to the financial statements.

Qualifying third party indemnities

Enhanced qualifying third party indemnities are provided to certain Directors of the Company by Santander UK plc (where such person has been nominated in writing by Santander UK plc as its representative on the board) against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remained in force through the financial year and as at the date of the Annual Report and Financial statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

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

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

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

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487 (2) of the Companies Act 2006.

By Order of the Board



Stephen Affleck

Directors

27 September 2018

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

27/9/2018

INCOME STATEMENT

For the year ended 31 December 2017

| | Notes | 2017 £ | 2016 £ |
|---|-------|------------------|-------------------|
| Revenue | | 28,627,031 | 48,577,784 |
| Cost of sales | | (25,968,177) | (30,229,121) |
| GROSS PROFIT | | 2,658,854 | 18,348,663 |
| Administrative expenses | | (242,955) | (91,130) |
| Gain / (loss) on disposal of operating leases | | 5,569,363 | (7,498,067) |
| PROFIT FROM OPERATIONS | 4 | 7,985,262 | 10,759,466 |
| Finance costs | 5 | (2,367,660) | (3,250,038) |
| PROFIT BEFORE TAX | | 5,617,602 | 7,509,428 |
| Tax | 6 | (1,723,607) | (2,253,465) |
| PROFIT FOR THE YEAR | | 3,893,995 | 5,255,963 |

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 (2016: profit) for the current and previous year as set out in the Income Statement, therefore a separate Statement of Other Comprehensive Income and Expense has not been presented.

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Issued share capital £ | Retained earnings £ | Total equity £ |
|-----------------------------|------------------------------|---------------------------|----------------------|
| Balance at 1 January 2017 | 100 | 45,067,697 | 45,067,797 |
| Total comprehensive income | - | 3,893,995 | 3,893,995 |
| Balance at 31 December 2017 | <u>100</u> | <u>48,961,692</u> | <u>48,961,792</u> |

| | Issued share capital £ | Retained earnings £ | Total equity £ |
|-----------------------------|------------------------------|---------------------------|----------------------|
| Balance at 1 January 2016 | 100 | 39,811,734 | 39,811,834 |
| Total comprehensive income | - | 5,255,963 | 5,255,963 |
| Balance at 31 December 2016 | <u>100</u> | <u>45,067,697</u> | <u>45,067,797</u> |

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

BALANCE SHEET

At 31 December 2017

| | Notes | 2017 £ | 2016 £ |
|------------------------------------|-------|---------------------|----------------------|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Operating lease assets | 7 | 70,592,269 | 71,254,194 |
| Trade and other receivables | 8 | 23,641,027 | 47,708,581 |
| Deferred tax asset | 13 | 8,680,260 | 8,455,805 |
| | | <u>102,913,555</u> | <u>127,418,580</u> |
| CURRENT ASSETS | | | |
| Trade and other receivables | 8 | 19,644,959 | 31,295,040 |
| TOTAL ASSETS | | <u>122,558,514</u> | <u>158,713,620</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | (63,049,615) | (105,046,778) |
| Corporation tax | | (10,547,107) | (8,599,045) |
| TOTAL LIABILITIES | | <u>(73,596,722)</u> | <u>(113,645,823)</u> |
| TOTAL NET ASSETS | | <u>48,961,792</u> | <u>45,067,797</u> |
| EQUITY | | | |
| ISSUED CAPITAL AND RESERVES | | | |
| Issued share capital | 15 | 100 | 100 |
| Retained earnings | | 48,961,692 | 45,067,697 |
| TOTAL EQUITY | | <u>48,961,792</u> | <u>45,067,797</u> |

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

The financial statements on pages 6 to 22 were approved by the Board of Directors and signed on its behalf by:



S Affleck
Director
27 September 2018

CASH FLOW STATEMENT

For the year ended 31 December 2017

| | Notes | 2017 £ | 2016 £ |
|--|-------|---------------------|---------------------|
| Profit for the year | | 3,893,995 | 5,255,963 |
| NON-CASH ADJUSTMENTS | | | |
| Depreciation | | 25,820,262 | 30,192,519 |
| (Profit) / loss on disposal of operating lease | | (5,569,363) | 7,498,067 |
| Tax charge | | 1,723,607 | 2,253,465 |
| Operating lease asset impairment write back | | (11,290,737) | (32,394,492) |
| Decrease in trade and other receivables | | 35,717,636 | 37,730,585 |
| Increase / (decrease) in trade payables | | 85,217 | (5,742,982) |
| Decrease in accruals | | (827,999) | (1,611,810) |
| | | 45,658,623 | 37,925,352 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | 49,552,618 | 43,181,315 |
| Tax paid | | - | - |
| Interest paid to parent undertakings | | (2,367,660) | (3,250,038) |
| Management charges paid to parent undertakings | | (242,955) | (91,130) |
| | | (2,610,615) | (3,341,168) |
| NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES | | 46,942,003 | 39,840,147 |
| CASH FLOWS (USED IN) / GENERATED FROM FROM INVESTING ACTIVITIES | | | |
| Payments to acquire operating lease assets | | (25,561,395) | (14,278,654) |
| Receipts from sale of operating lease assets | | 17,263,158 | 20,197,512 |
| NET CASH FLOWS (USED IN) / GENERATED FROM INVESTING ACTIVITIES | | (8,298,237) | 5,918,858 |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | | |
| Cash advances to parent undertakings | | (38,643,766) | (45,759,005) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | (38,643,766) | (45,759,005) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | - | - |
| Cash and cash equivalents at start of year | | - | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 14 | - | - |

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

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

1. ACCOUNTING POLICIES

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

General information

The Company is a limited company, whose liability is limited by shares. The company is domiciled and incorporated in the United Kingdom and is part of a European listed group 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.

Revenue recognition

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

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

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

Finance income and finance costs

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

Income taxes including deferred taxes

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 net profit 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. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Leases

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

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 a derecognition of operating lease assets is included in the profit or loss when the item is derecognised. Gains are not recognised as revenue.

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

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

Cash and cash equivalents

The Company does not hold cash or cash equivalents.

Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or fair value through profit or loss.

Loans and 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 initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate method, less any impairment. Interest calculated using the effective interest rate method is recognised in the income statement. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership.

Financial assets at fair value through profit or loss

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

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

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

Non-trading financial liabilities are initially recognised at fair value net of transaction costs incurred. They are subsequently stated at amortised cost and the redemption value recognised in the income statement over the period of the liability using the effective interest 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.

Effective interest method

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 contractual life of the lease agreements. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the contractual life of the financial instrument to the net carrying amount on initial recognition.

Impairment of financial assets

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

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

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

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate.

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

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 as follows:

| | |
|------------------------|---------------|
| Operating lease assets | 3 to 10 years |
|------------------------|---------------|

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

1. ACCOUNTING POLICIES (CONTINUED)

Future accounting developments

At 31 December 2017, Santander Asset Finance (December) Limited has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for Santander Asset Finance (December) Limited:

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

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

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

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

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

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

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

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

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

For Santander Asset Finance (December) Limited, the application of IFRS 9 decreases shareholders' equity at 1 January 2018 by £267k (net of tax), comprised of a £330k decrease arising from the application of the new ECL impairment methodology, this amount being partially offset by the recognition of a deferred tax asset of £63k.

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

1. ACCOUNTING POLICIES (CONTINUED)

Future accounting developments (continued)

- b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. It is expected that a significant proportion of the Santander UK group's revenue will be outside the scope of IFRS 15. Consequently, there have been no significant changes in the recognition of in scope income and, consequently, IFRS 15 has no material impact on these Financial Statements.
- c) IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. At the date of publication of these Financial Statements the standard is awaiting EU endorsement. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 16 on these Financial Statements.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

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

Residual values

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

Impairment loss allowances

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

Effective interest rate calculations

IAS 39 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the effective interest rate (EIR) methodology. In order to calculate EIR, the contractual repayment profile is used. If customers repay earlier than anticipated, this will generally lead to an increase in the Balance Sheet carrying value and a gain in the Income Statement.

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.

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

3. FINANCIAL 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, credit risk, market risk, interest rate risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Santander UK Group. Santander UK's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK Group's strategic objectives.

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK plc Annual Report which does not form part of this Report.

Operational risk

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

Credit risk

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

Lending decisions are based on independent credit risk analysis supplemented by the use of internal ratings tools which assess the obligor's likelihood of default. The output of the ratings tools is a borrower grade which maps to a long-run average one year probability of default.

Borrower grades are reviewed at least annually, allowing identification of adverse individual and sector trends. The grade is integrated into an overall Credit & Risk evaluation, including wider factors such as transaction and borrower structure (ranking and structural subordination), debt serviceability and security (initial and residual value considerations). Consideration is also given to risk mitigation measures to protect the Company, such as third-party guarantees, supporting collateral and security, robust legal documentation, financial covenants and hedging. Transactions are further assessed using an internal pricing model which measures both the return on equity and the risk adjusted return on capital against a series of benchmarks to ensure risks are appropriately priced.

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

The class of financial instruments that is most exposed to credit risk in the Company is net investment in finance leases (note 9).

| | 2017 | 2016 |
|----------------------------------|------------|------------|
| | £ | £ |
| Net investment in finance leases | 42,687,769 | 76,196,131 |

All exposures are with Corporate and other customers.

For the Company, 100% (2016: 100%) of the balances are secured. The main types of security are charges over assets being financed. None of the finance and operating leases are secured by bank guarantees.

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Arrears and impairment

Lending balances in arrears are in line with management's expectations at 0.3% at the year end (2016: 0.3%).

Payment due status:

| | Corporate | | 2017 | | | | Total | |
|-------------------------------|-----------|-----|--------------------------|--|------------|-----|------------|-----|
| | £ | % | Commercial Asset Finance | | £ | % | £ | % |
| Not impaired | | | | | | | | |
| Neither past due nor impaired | 2,321,194 | 100 | | | 40,786,262 | 100 | 43,107,456 | 100 |
| | 2,321,194 | 100 | | | 40,786,262 | 100 | 43,107,456 | 100 |
| Provisions | - | | | | (419,687) | | (419,687) | |
| Total | 2,321,194 | | | | 40,366,575 | | 42,687,769 | |

| | Corporate | | 2016 Commercial Asset Finance | | Total | |
|-------------------------------|-----------|-----|----------------------------------|-----|-------------|-----|
| | £ | % | £ | % | £ | % |
| Not impaired | | | | | | |
| Neither past due nor impaired | 7,980,567 | 100 | 75,234,098 | 100 | 83,214,665 | 100 |
| | 7,980,567 | 100 | 75,234,098 | 100 | 83,214,665 | 100 |
| Provisions | - | | (7,018,534) | | (7,018,534) | |
| Total | 7,980,567 | | 68,215,564 | | 76,196,131 | |

The carrying value of repossessed stock at 31 December 2017 was £nil (2016: £nil). The Company sells the repossessed stock at market price rather than using them in its operations.

The portfolio is subject to regular monitoring for potential impairment under the impairment of financial assets policy set out in note 1.

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

Impairment loss allowances on trade and other receivables

| | 2017 | 2016 |
|---|-------------|-----------|
| | £ | £ |
| At 1 January | | |
| Collective | 7,018,534 | 5,807,632 |
| Total impairments | 7,018,534 | 5,807,632 |
| Net impairment (reversal)/charge for the year | (1,288,847) | 1,210,902 |
| Disposals | (5,310,000) | - |
| Total amounts provided during year | (6,598,847) | 1,210,902 |
| At 31 December | | |
| Collective | 419,687 | 7,018,534 |
| Total impairments | 419,687 | 7,018,534 |

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

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

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 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, Santander Asset Finance plc.

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. All liabilities are repayable on demand. The day to day management of liquidity is the responsibility of Asset and Liability Management ("ALM") within Santander UK plc's Group Infrastructure, which provides funding to and takes surplus funds from the Company as required.

4. PROFIT FROM OPERATIONS

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

| | 2017 £ | 2016 £ |
|---|-------------|------------|
| Depreciation of operating lease assets | 25,820,262 | 30,192,519 |
| (Gain) / Loss on disposal of operating lease assets | (5,569,363) | 7,498,067 |

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

Directors' emoluments

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 (2016: £nil).

Auditors' remuneration

The audit fee for the current and prior year has been paid on the Company's behalf by its intermediate UK parent undertaking, Santander UK plc, in accordance with company policy, for which no recharge has been made. The audit fee payable to the Company's auditors for the audit of the Company's annual Financial Statements for the current year is £12,000 (2016: £11,000).

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.

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

5. FINANCE COSTS

| | 2017 £ | 2016 £ |
|--|------------------|------------------|
| Amounts payable to immediate parent undertakings | <u>2,367,660</u> | <u>3,250,038</u> |

6. TAX

| | 2017 £ | 2016 £ |
|---|------------------|--------------------|
| Current tax: | | |
| UK corporation tax on profit of the year | 2,842,230 | 3,972,313 |
| Adjustments in respect of prior years | (894,168) | (61,171) |
| Total current tax | <u>1,948,062</u> | <u>3,911,142</u> |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (1,760,841) | (2,470,427) |
| Change in rate of UK corporation tax | 260,790 | 752,454 |
| Adjustments in respect of prior years | 1,275,596 | 60,296 |
| Total deferred tax | <u>(224,455)</u> | <u>(1,657,677)</u> |
| Tax charge on profit before tax | <u>1,723,607</u> | <u>2,253,465</u> |

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

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

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

The tax on the Company's profit before tax differs from (2016: differs from) the theoretical amount that would arise using the basic tax rate of the Company as follows:

| | 2017 £ | 2016 £ |
|--|------------------|------------------|
| Profit before tax | <u>5,617,602</u> | <u>7,509,428</u> |
| Tax calculated at a rate of 19.25% (2016: 20.0%) | <u>1,081,388</u> | <u>1,501,886</u> |
| Non deductible expenses | - | - |
| Adjustment in respect of prior years | 381,429 | (875) |
| Effect of change in tax rate on deferred tax provision | 260,790 | 752,454 |
| Tax charge on profit before tax | <u>1,723,607</u> | <u>2,253,465</u> |

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

7. OPERATING LEASE ASSETS

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

| | 2017 £ | 2016 £ |
|--|--------------------|--------------------|
| Cost | | |
| At 1 January | 160,668,419 | 202,074,697 |
| Additions | 25,561,395 | 14,278,654 |
| Disposals | (40,401,161) | (55,684,932) |
| At 31 December | <u>145,828,653</u> | <u>160,668,419</u> |
| Accumulated Depreciation | | |
| At 1 January | 89,414,225 | 119,605,551 |
| Charge for year | 25,820,262 | 30,192,519 |
| Reclassification to finance lease receivable | (11,290,737) | (32,394,492) |
| Disposals | (28,707,366) | (27,989,353) |
| At 31 December | <u>75,236,384</u> | <u>89,414,225</u> |
| Net book value | | |
| At 1 January | <u>71,254,194</u> | <u>82,469,146</u> |
| At 31 December | <u>70,592,269</u> | <u>71,254,194</u> |

The gain / (loss) on disposal of operating lease assets was £5,569,363 (2016 (£7,498,067)).

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

| | 2017 £ | 2016 £ |
|----------------------|-------------------|-------------------|
| Within 1 year | 25,487,913 | 23,061,852 |
| Between 1-5 years | 35,923,331 | 34,075,588 |
| In more than 5 years | 91,993 | - |
| Total | <u>61,503,237</u> | <u>57,137,440</u> |

8. TRADE AND OTHER RECEIVABLES

| | 2017 £ | 2016 £ |
|------------------------------------|-------------------|-------------------|
| Non current | | |
| Finance lease receivables (note 9) | <u>23,641,027</u> | <u>47,708,581</u> |
| Current | | |
| Finance lease receivables (note 9) | 19,046,742 | 28,487,550 |
| Other receivables | 598,217 | 2,807,490 |
| | <u>19,644,959</u> | <u>31,295,040</u> |
| Total trade and other receivables | <u>43,285,986</u> | <u>79,003,621</u> |

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

9. FINANCE LEASES

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

| | <i>Gross investment in the lease</i> | | <i>Present value of minimum lease payments</i> | |
|---|--------------------------------------|--------------------|--|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | £ | £ | £ | £ |
| Less than one year | 22,907,468 | 32,593,307 | 19,046,742 | 28,487,550 |
| Later than one year but less than five years | 29,022,055 | 53,862,406 | 23,580,649 | 47,607,120 |
| Later than five years | 74,313 | 116,720 | 60,378 | 101,461 |
| | <u>52,003,836</u> | <u>86,572,433</u> | <u>42,687,769</u> | <u>76,196,131</u> |
| Less: | | | | |
| Unearned finance income | (6,831,196) | (7,572,349) | | |
| Unguaranteed residual value accruing to the benefit of the lessor | <u>(2,484,871)</u> | <u>(2,803,953)</u> | | |
| Net investment in finance leases | <u>42,687,769</u> | <u>76,196,131</u> | | |
| Non-current | | | 23,641,027 | 47,708,581 |
| Current | | | <u>19,046,742</u> | <u>28,487,550</u> |
| | | | <u>42,687,769</u> | <u>76,196,131</u> |

The directors consider that the net investment in finance leases is approximately equal to their fair value.

10. CAPITAL

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

11. RELATED PARTY TRANSACTIONS

| | 2017 | 2016 |
|--------------------------------------|-------------------|--------------------|
| | £ | £ |
| Payable to parent undertaking | | |
| Santander Asset Finance plc | 62,632,439 | 103,886,820 |
| | <u>62,632,439</u> | <u>103,886,820</u> |

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

| | 2017 | 2016 |
|---|---------------------|---------------------|
| | £ | £ |
| Amount owed to parent undertaking | | |
| As at 1 January | 103,886,820 | 152,986,994 |
| Net movements | <u>(41,254,381)</u> | <u>(49,100,174)</u> |
| As at 31 December (note 12) | <u>62,632,439</u> | <u>103,886,820</u> |
| Interest paid to parent undertaking (note 5) | <u>2,367,660</u> | <u>3,250,038</u> |

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

11. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

As detailed in note 4 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 £242,955 (2016: £91,130).

12. TRADE AND OTHER PAYABLES

| | 2017 £ | 2016 £ |
|---|-------------------|--------------------|
| Current | | |
| Trade payables | 356,861 | 271,644 |
| Payable to parent undertaking (note 11) | 62,632,439 | 103,886,820 |
| Accrued liabilities | 60,315 | 888,314 |
| | 63,049,615 | 105,046,778 |

13. 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:

| | 2017 £ | 2016 £ |
|--|------------------|------------------|
| At 1 January | 8,455,805 | 6,798,128 |
| Income statement (credit)/debit (note 6) | 224,454 | 1,657,677 |
| At 31 December | 8,680,259 | 8,455,805 |

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

| | Balance Sheet | | Income Statement | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2017 £ | 2016 £ | 2017 £ | 2016 £ |
| Deferred tax assets | | | | |
| Accelerated book depreciation | 7,587,132 | 6,523,398 | 1,080,610 | 1,517,427 |
| Other temporary differences | 1,093,127 | 1,932,407 | (856,156) | 140,250 |
| | 8,680,259 | 8,455,805 | 224,454 | 1,657,677 |

The deferred tax assets scheduled above have been recognised in the Company on the basis that sufficient future taxable profits are forecast within the Santander UK 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.

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

14. CASH AND CASH EQUIVALENTS

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

| | 2017 £ | 2016 £ |
|--------------|-----------|-----------|
| Cash at bank | - | - |

15. ISSUED SHARE CAPITAL

| | 2017 No | 2017 £ | 2016 No | 2016 £ |
|----------------------------|------------|-----------|------------|-----------|
| Issued and fully paid | | | | |
| Ordinary shares of £1 each | 100 | 100 | 100 | 100 |

All issued share capital is classified as equity.

16. CONTINGENT LIABILITIES

The Company, along with certain other subsidiaries of Santander UK plc, is a party to a capital support deed dated 14 December 2012 with Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited (each a "regulated entity"). The Capital Support Deed supports a core UK group for the purposes of section 10 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") of the FSA Handbook. Under section 10.8 of BIPRU, exposures of each regulated entity to other members of the core UK group, including the Company, are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources or repayment of liabilities to a regulated entity to ensure that a regulated entity continues to comply with requirements relating to capital resources and risk concentrations. The amount of any transfer is limited to the sum of the Company's capital resources which would not cause the value of its liabilities to exceed the value of its assets, taking into account all of its contingent and prospective liabilities. The Capital Support Deed also provides that, in certain circumstances, funding received by the Company from other parties to the Capital Support Deed becomes repayable on demand, such repayment being limited to the Company's available resources. From 1 January 2014, section 10.8 BIPRU is replaced by Article 113(6) of the Capital Requirements Regulation.

17. PARENT UNDERTAKING AND CONTROLLING PARTY

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.