ALLIANCE & LEICESTER PERSONAL FINANCE LIMITED

Registered in England and Wales
Company Number 02486611

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

REPORT OF THE DIRECTORS

The Directors submit their annual report, together with the audited financial statements for the year ended 31 December 2022.

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions under Sections 415A (1) & (2) of the Companies Act 2006. The Company is also exempt from preparing a Strategic Report in accordance with Section 414B of the Companies Act 2006.

Principal Activities and review of the year

The principal activity of Alliance & Leicester Personal Finance Limited (the Company) is to recover second charge secured personal loans already advanced to customers. There is no new loan activity.

Results and dividends

The loss for the year amounted to £2,285,000 (2021: profit £180,000). The Directors do not recommend the payment of a dividend (2021: £nil).

The Directors are aware of the shareholders' deficit totalling £205,000,000 (2021: £202,000,000), but do not believe that a material uncertainty exists on the company's ability to continue as a going concern. The company continues to receive funding from its parent Santander UK plc, when needed.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

S D Affleck
M J Hall
N Pai

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Report of Directors 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 UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards 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 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 also 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.

Recent events within the global banking industry

Significant market uncertainty has been generated by the collapse of Silicon Valley Bank (SVB) in the United States on 10 March 2023 and the rescue of Credit Suisse by UBS following the announcement on 14 March 2023 by Credit Suisse of material weaknesses in its financial controls.

The Company is part of the Santander UK Group which has an established, mature Risk Framework and a stable, low risk business model with highly diversified assets across different markets and businesses. The Santander UK Group's funding is also well diversified with the majority of deposits held by retail customers which, in the majority of cases, are insured by state-backed deposit guarantee schemes.

REPORT OF THE DIRECTORS (continued)

Uncertain macroeconomic and geopolitical environment

In the past few years, a number of broader, more complex and uncertain risks have evolved which may present future headwinds. These include geopolitical tensions between regions across the world, in particular the current conflict in the Ukraine. This has impacted global energy prices and supply chains which added to inflationary pressures, as well as stretching household finances. These risks accelerate trends towards deglobalisation, and a reduction of variety of goods and services, causing prices to increase over the medium to long-term. These factors are also playing into increased localised political risk across the globe, including in the UK with a second new Prime Minister in 2022.

The Company is closely following these developments and the potential for any material impacts, which may need to be taken into consideration in its business plans and intends to take a coordinated approach with the other members of the Santander UK plc group.

Streamlined Energy and Carbon Reporting (SECR)

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

Statement of Going Concern

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 11 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to operational risk, market risk, liquidity risk and credit risk.

The Company is part of the Santander UK Group (the "Group"). The UK parent company has provided a formal letter of support to the Company confirming that support will be provided, if required, to allow the Company to meet its ongoing trading liabilities as they fall due. The Company has net liabilities and is reliant on other companies in the Santander UK Group for a significant proportion of its funding. The company is expected to continue in existence for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Board of Santander UK plc has confirmed that it is a going concern, and that it will provide funding to the Company for the foreseeable future.

The Directors, having assessed the responses of the Directors of the company's parent Santander UK plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Santander UK plc and the Group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the Directors of Santander UK plc, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for 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.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Company by the Group 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 Annual Report and financial statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Statement of disclosure of information to 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 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.

Independent Auditors

PricewaterhouseCoopers LLP are re-appointed as auditors under Section 487(2) of the Companies Act 2006.

On behalf of the Board

SD Affleck
Director
26 July 2023

Registered Office Address: Building 3 Floor 2, Carlton Park, Narborough, LE19 0AL.

Independent auditors' report to the members of Alliance & Leicester Personal Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Alliance & Leicester Personal Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2022; the statement of comprehensive income, the statement of changes in equity and the cash flow statement 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

Independent auditors' report to the members of Alliance & Leicester Personal Finance Limited (continued)

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2022 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 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 in respect to financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to applicable tax legislations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Discussions with management and communication with those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing minutes of meetings of those charged with governance;
- Identifying and testing journal entries meeting certain risk-based criteria, including unusual account combination;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed.

Independent auditors' report to the members of Alliance & Leicester Personal Finance Limited (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Nikhil Dhiri (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
27 July 2023

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Note	2022 £000	2021 £000
Interest receivable and similar income		154	231
Interest payable and similar charges		(3,341)	(80)
Net interest (expense)/income		(3,187)	151
Operating (loss)/profit		(3,187)	151
Impairment movement on secured loans and advances	6	375	75
Administrative expenses	3	(8)	(7)
(Loss)/Profit before tax		(2,820)	219
Tax charge for the year	4	535	(39)
(Loss)/Profit for the year		(2,285)	180
Total comprehensive (expense)/income for the year		(2,285)	180

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

BALANCE SHEET

As at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Deferred tax asset	5	5	7
Financial assets at amortised cost:			
- Loans and advances to customers	10	1,686	2,357
- Amounts owed by group undertakings	9	32,373	30,679
Total assets		34,064	33,043
Liabilities			
Financial liabilities at amortised cost:			
- *Amounts due to group undertakings*	9	238,549	235,210
Other liabilities	7	30	23
Corporation Tax		-	40
Total liabilities		238,579	235,273
Equity			
Share capital	8	40,000	40,000
Accumulated losses		(244,515)	(242,230)
Total equity		(204,515)	(202,230)
Total equity and liabilities		34,064	33,043

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

These financial statements have been prepared in accordance with the special provisions relating to the small companies regime and the Directors make this statement in accordance with section 414(3) of the Companies Act 2006.

The financial statements on pages 6 to 20 were approved by the Board of Directors on 26 July 2023 and signed on its behalf by:

SD Affleck
Director
26 July 2023

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital £000	Accumulated losses £000	Total £000
At 1 January 2022	40,000	(242,230)	(202,230)
Loss and total comprehensive expense for the year	-	(2,285)	(2,285)
At 31 December 2022	**40,000**	**(244,515)**	**(204,515)**

	Share capital £000	Accumulated losses £000	Total £000
At 1 January 2021	40,000	(242,410)	(202,410)
Profit and total comprehensive income for the year	-	180	180
At 31 December 2021	**40,000**	**(242,230)**	**(202,230)**

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

CASH FLOW STATEMENT

For the year ended 31 December

There have been no cash transactions in the current and previous years.

A decrease of £1,046,000 (2021: decrease of £693,000) in the loans and advances to customers was accompanied by an increase of £1,692,000 (2021: increase of £738,000) in other receivables due from immediate parent undertaking and a total increase in payables of £3,841,000 (2021: decrease in payables of £99,000).

The Company does not hold a bank account. Cash transactions that do arise are settled through the parent company's bank account. As there have *been no physical cash movements in either year, the Company has not presented a cash flow statement.*

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

General information

The Company is a private company limited by shares, incorporated and registered in the United Kingdom and part of Santander UK Group Holdings plc whose ultimate parent is Banco Santander SA. The registered office address of the Company is Building 3 Floor 2, Carlton Park, Narborough, Leicester, LE19 0AL.

Basis of preparation

These financial statements are prepared for Alliance & Leicester Personal Finance Limited (the Company) under the Companies Act 2006 and in accordance with UK-adopted international accounting standards (IAS). All non-current assets and liabilities have been reclassified as current and have been presented at their recoverable value at the end of the reporting period.

The financial statements have been prepared under the historical cost convention and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors. The functional and presentation currency of the Company is Pound Sterling.

Recent accounting developments

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB amended IAS 1 'Presentation of Financial Statements' to require entities to disclose their material rather than their significant accounting policies. To support this amendment, the IASB also amended IFRS Practice Statement 2 'Making Materiality Judgements' to provide guidance on how to apply the concept of materiality. The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments have been applied in preparing these financial statements and, consequently, only material accounting policy information is disclosed.

Future accounting developments

At 31 December 2022, for the Company, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective.

Material accounting policy information

The following material accounting policies have been applied in preparing these financial statements. These policies have been consistently applied to all years presented, unless otherwise stated. Those material accounting policies which involves the application of judgements or accounting estimates that are determined to be critical to the preparation of these financial statements are set out in the section headed "Critical judgements and accounting estimates".

Presentation of Statement of Comprehensive Income

Due to the fact that the nature of the business is to provide personal loans, the Directors are of the opinion that it is more appropriate to use 'Net Interest Income' rather than 'Revenue' in presenting the Statement of Comprehensive Income.

Revenue recognition

Interest income on loans and advances to customers is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest receivable and payable

Interest income and expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Fees integral to the loan yield are included within interest income and expense as part of the effective interest rate calculation.

Financial Instruments

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, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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. 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.

Solely payments of principal and interest ("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 measurement category of 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 Company's debt instruments consist of the secured loan portfolio which is reflected under 'Loans and advances to customers' in the Balance Sheet and 'Amounts owed by group undertakings'. The loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Interest income using the effective interest rate method is reflected in the Statement of Comprehensive income as 'interest receivable and similar income'. The carrying amount of these assets is adjusted by any ECL recognised.

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.

Financial liabilities

The Company's financial liabilities consist of 'Amounts due to group undertakings' which are held at amortised cost. Finance costs are charged to the Statement of Comprehensive Income using the effective interest rate method and reflected under 'interest payable and similar charges'.

2. Impairment of 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 financial instruments that are considered to have low credit risk such as intercompany loans to the immediate parent, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective. Typically, financial instruments with an external credit rating of investment grade are considered to have low credit risk. For more on how ECL is calculated see the Credit risk section of Note 2 Financial Risk Management.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

i) Write-off

A write-off is made when all collection procedures have been completed and is charged against previously established provisions for impairment.

ii) Recoveries

Recoveries of loan losses are not included in the loan loss allowance but are taken to income and offset against charges for loan losses. Loan loss recoveries are reflected in the Statement of Comprehensive Income within "Impairment movement on secured loans and advances".

3. Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or the Company has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Company has neither retained nor transferred substantially all of the risks and rewards but has transferred control. Financial liabilities are derecognised when extinguished, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Income taxes including deferred taxes

The tax expense represents the sum of tax currently payable and deferred 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 Statement of Comprehensive Income 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 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 Statement of Comprehensive Income, 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.

Critical judgements and accounting estimates

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. In the course of preparing the financial statements, the following accounting estimates are considered important to the portrayal of Company's results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) 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.

In calculating each estimate, a range of outcomes were calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

Credit impairment losses

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. In deriving the credit loss impairment, the key estimate is the discount factor. The discount factor is a benchmark rate derived from an IAS39 model; however the result is not materially different should a IFRS9 model have been used.

NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL RISK MANAGEMENT

Because the customer loans are second charges on the property, and the company does not hold the first charge, there is a lack of comparative account level data. This results in the fact that the information required for an IFRS9 Core Provisions model is unavailable and therefore the Credit Risk provisions are calculated at a segment level under IAS39.

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, liquidity risk and credit risk. The Company manages its risk in line with the central risk management function of the Santander UK Group (the "Group"). Santander UK Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholder, 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 then 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. Further information can be found in the Santander UK plc Annual Report which does not form part of this Report.

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The majority of market risk arises as a result of interest rate risk.

Interest rate risk

The loan portfolio is wholly comprised of lending at a fixed rate and therefore not subject to interest rate risk. The Company however is exposed to interest rate risk as it receives a variable interest rate on its loan with its parent company. During 2011 the parent company impaired the floating rate loan. The interest rate sensitivity analysis below shows the effect on the statement of comprehensive income from a change in the base rate by 50 bps against the loan:

- Increase in BoE base rate by 50bps: Reduction in profit by £1,193,000 (2021: £1,176,000).
- Decrease in BoE base rate by 50bps: Increase in profit by £1,193,000 (2021: £80,000).

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Company does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Company manages liquidity risk with the support of its parent company, ensuring that the Company will have sufficient liquid resources to meet its obligations as they fall due.

The maturity profile of the Company's financial liabilities based on the remaining period to the contractual maturity date at the balance sheet date was:

At 31 December 2022	Less than 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Financial liabilities				
Due to banks – group undertakings	238,549	-	-	238,549
Other liabilities	30	-	-	30
Due to banks - group undertakings	238,579	-	-	238,579

At 31 December 2021	Less than 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Financial liabilities				
Due to banks – group undertakings	235,210	-	-	235,210
Other Liabilities	23	-	-	23
Due to banks - group undertakings	235,233	-	-	235,233

NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

A loan facility of £240.0m extended to the Company by Santander UK plc was renewed with a maturity date of 31 December 2025. The Board of Santander UK plc has confirmed that it will provide funding to the Company for the foreseeable future.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held.

The main source of credit risk is in loans and advances to customers which comprise of secured personal loans.

Credit risk management

The credit quality of customer assets is managed by on-going monitoring and collection recovery operations during account administration. Credit risk is mitigated by security taken over the borrower's assets. This security takes the form of a secondary charge on the borrower's residential property. For the purposes of risk management, the Company treats secured loans as a single asset class.

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 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.

Because the customer loans are second charges on the property, and the company does not hold the first charge, there is a lack of comparative account level data. This results in the fact that the information required for an IFRS98 Core Provisions model is unavailable and therefore the Credit Risk provisions are calculated at a segment level under IAS39.

Significant Increase in Credit Risk (SICR)

Customer loans have suffered a SICR since origination and are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. All loans have been assessed as Stage 3 where exposure is considered credit impaired. The Company applies a loss allowance equal to the lifetime ECL.

There is a higher than typical credit impairment on the customer loans as they are second charges on the property, and as the company does not hold the first charge, recovered balances only arise when there is a surplus on redemption of the primary charge. Therefore there is no control over when the loan will be written off. Due to the nature of the loan there is a lack of customer data which means that the credit impairment is not calculated on an account level IFRS9 basis but at a segment level under IAS39.

Criteria applicable to stage 3
Definition of default (Credit impaired)

The Company defines 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 information suggests customers cannot keep up with their payments. Information includes where:
– Customers 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 customers less likely to be able to pay
– Customers have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
– Customer's loan is unlikely to be refinanced or repaid in full on maturity.

NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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.

Maximum exposure to credit risk

The Company places the majority of its loans and advances with Group companies. The Company did not recognise an ECL provision against these balances as they are nearly all payable on demand and the borrower (Santander UK plc) has sufficient accessible highly liquid assets in order to repay the loan if demanded. As at the year-end 31 December 2022, no impairment was recognised against loans and advances to Group companies.

The main source of credit risk is in loans and advances to customers. Loans and advances to customers comprise of secured personal loans.

The table below shows the Company's maximum exposure to credit risk as at 31 December. The table only shows the financial assets that credit risk affects.

	Balance Sheet asset		
2022	**Gross amounts**	**Credit Loss allowances**	**Net exposure**
	£000	**£000**	**£000**
Financial assets at amortised cost:			
Loans and advances to customers	**2,386**	**(700)**	**1,686**
Total financial assets at amortised cost	**2,386**	**(700)**	**1,686**

	Balance Sheet asset		
2021	Gross amounts	Credit Loss allowances	Net exposure
	£000	£000	£000
Financial assets at amortised cost:			
Loans and advances to customers	3,432	(1,075)	2,357
Total financial assets at amortised cost	3,432	(1,075)	2,357

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.

Secured personal loan arrears are set out below	**2022**	2021
	£000	£000
Total secured personal loan asset	**2,386**	3,432
Total secured personal loan arrears	**779**	1,214
Personal loan arrears as a % of asset	**33%**	35%
Total secured personal loan impairment reserves	**700**	1,075
Personal loan impairment reserves as a % of asset	**29%**	31%

During 2022 there were no customers who were provided short-term payment holidays. In 2021 two customers were granted a payment holiday of up to three consecutive months (2020: 27 customers).

NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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 2022.

2022	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Exposures				
Loans and advances to customers	1,607	127	652	2,386
Total exposures	1,607	127	652	2,386
IFRS 9 ECL				
Loans and advances to customers	(32)	(56)	(612)	(700)
Total ECL	(32)	(56)	(612)	(700)
Net exposures	1,575	71	40	1,686

2021	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Exposures				
Loans and advances to customers	2,218	250	964	3,432
Total exposures	2,218	250	964	3,432
IFRS 9 ECL				
Loans and advances to customers	(43)	(120)	(912)	(1,075)
Total ECL	(43)	(120)	(912)	(1,075)
Net exposures	2,175	130	52	2,357

Movements in the 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	
	£000	£000	£000	£000
At 1 January 2021	(55)	(144)	(951)	(1,150)
Income statement release for the year	12	24	39	75
Net impairment reversal/ (charge)	12	24	39	75
At 31 December 2021 and 1 January 2022	(43)	(120)	(912)	(1,075)
Income statement release for the year	11	64	300	375
Net impairment reversal/ (charge)	11	64	300	375
At 31 December 2022	(32)	(56)	(612)	(700)

NOTES TO THE FINANCIAL STATEMENTS

3. ADMINISTRATIVE EXPENSES

Auditors' remuneration

The profit in the current and prior years have been arrived at after charging an audit fee of £6,850 (2021: £5,835) which is payable to the Company's auditors for the statutory audit of the Company's annual financial statements.

Directors and employees

No Directors were remunerated for their services to the Company during the year (2021: £nil). Directors' emoluments are borne by the ultimate UK parent company Santander UK plc. The Directors' services to the Company are an incidental part of their duties.

The Company had no employees during the year (2021: nil).

4. TAX CHARGE FOR THE YEAR

	2022 £000	2021 £000
Current Tax		
UK corporation tax on profit for the year	(537)	40
Total current tax	(537)	40
Deferred Tax		
Origination and reversal of temporary differences	1	1
Change in rate of UK Corporation tax	-	(2)
Adjustments in respect to prior years	1	-
Total deferred tax	2	(1)
Tax charge on profit for year	(535)	39

UK corporation tax is calculated at 19% (2021: 19%) of the estimated assessable losses/profits for the year.

The UK government announced in its budget on 3 March 2021 that it would increase the main rate of corporation tax by 6% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021 and, as a result, the effect has been reflected in the deferred tax position included in these financial statements for both the 2021 and 2022 balance sheet dates.

The tax on the Company's loss before tax is the same as (2021: profit before tax differs from) the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2022 £000	2021 £000
(Loss)/Profit before tax	(2,820)	219
Tax calculated at a tax rate of 19% (2021: 19%)	(536)	42
Effect of change in tax rate on deferred tax provision	-	(3)
Adjustments to prior year provisions	1	-
Tax (credit)/ charge for the year	(535)	39

NOTES TO THE FINANCIAL STATEMENTS

5. 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:

	2022 £000	2021 £000
At 1 January	7	6
Statement of Comprehensive Income (charge)/credit	(2)	1
At 31 December	5	7

The deferred tax assets are attributable to the following items:

	Balance Sheet		**Statement of Comprehensive Income**	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Deferred tax assets				
Accelerated book depreciation	5	7	(2)	1
At 31 December	5	7	(2)	1

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

6. IMPAIRMENT MOVEMENT ON SECURED LOANS AND ADVANCES

Movement in loan loss allowances:

	2022 £000	2021 £000
As at 1 January	1,075	1,150
Decrease in impairment provisions	(375)	(75)
As at 31 December	700	1,075

Loans and advances to customers before impairment totalled £2,386,000 (2021: £3,342,000).

7. OTHER LIABILITIES

	2022 £000	2021 £000
Other liabilities	30	23
	30	23

8. SHARE CAPITAL

	2022 £000	2021 £000
Issued and fully paid:		
40,000,002 (2021: 40,000,002) ordinary shares of £1 each	40,000	40,000

NOTES TO THE FINANCIAL STATEMENTS

9. RELATED PARTY TRANSACTIONS

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

	Expenditure		Amounts due from related parties		Amounts due to related parties	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Santander UK plc - loans with immediate parent	3,341	80	-	-	238,549	235,210
Santander UK plc - other debtor	-	-	31,837	30,679	-	-
Santander UK plc – group relief	-	-	536	-	-	-
	3,341	80	32,373	30,679	238,549	235,210

All amounts due from and due to related parties are unsecured.

The loan payable to Santander UK plc is part of a total facility of £240,000,000 that incurs interest at the Bank of England base rate. The contractual term of this facility ends on the 31 December 2025. The Board of Santander UK plc has confirmed that it will provide funding to the Company for the foreseeable future.

Other debtor and group relief balances with Santander UK plc are not interest bearing and repayable on demand.

The Directors consider that the carrying amounts of amounts due to/from related parties approximates to their fair value.

There were no related party transactions during the year, or existing at the balance sheet date, with the Company's or parent Company's key management personnel (2021: £nil).

10. LOANS AND ADVANCES TO CUSTOMERS

	2022	2021
	£000	£000
Secured Personal Loan – Second charge on household property	2,386	3,432
Loans and advances to customers	2,386	3,432
Less: impairment loss allowances	(700)	(1,075)
Loans and advances to customers, net of impairment loss allowances	1,686	2,357
Repayable		
On demand	289	375
In no more than 3 months	44	9
In more than 3 months but not more than 1 year	11	103
In more than 1 year but not more than 5 years	417	479
In more than 5 years	1,625	2,466
Loans and advances to customers	2,386	3,432
Less: impairment loss allowances	(700)	(1,075)
Loans and advances to customers, net of impairment loss allowances	1,686	2,357

These loans are all fixed rate loans and represent a second charge over mortgaged household property.

During the year, £nil of loans deemed to be irrecoverable were written off (2021: £nil). There were no recoveries from loans previously written off.

NOTES TO THE FINANCIAL STATEMENTS

11. CAPITAL MANAGEMENT AND RESOURCES

The Company's UK parent, 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 group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the Santander UK group's capital management can be found in the Santander UK plc Annual Report and financial statements.

Capital held by the Company and managed centrally as part of the Santander UK group, comprises share capital and reserves which can be found in the Balance Sheet.

12. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is domiciled in the United Kingdom. The Company's immediate parent is Santander UK plc, a company registered in England and Wales. The registered office address of Santander UK plc is 2 Triton Square, Regent's Place, London NW1 3AN.

The Company's ultimate parent and controlling party is Banco Santander S.A., a company registered in Spain. Banco Santander S.A. is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which the group financial statements are drawn up and of which the Company is a member.

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