FOSSE FUNDING (NO.1) LIMITED

Registered in England and Wales
Company number 05925696

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 December 2012

FOSSE FUNDING (NO.1) LIMITED - 05925696

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2012

Principal activity and business review

Fosse Funding (No 1) Ltd (the "Company"), was established as a special purpose company to (i) borrow funds generated by the issuance of debt securities (residential mortgage backed notes) (the 'Notes') by Fosse Master Issuer plc in the international capital markets, and (ii) make such funds available to the Santander UK Group by purchasing a beneficial interest in a mortgage loan portfolio held by Fosse Trustee Limited (the 'Fosse Master Trust')

Payments of interest and principal on the loan from Fosse Master Issuer plc are made only to the extent that the Company has received sufficient funds from its beneficial interest in the underlying mortgage loans and after certain expenses have been met Under the documents governing the transaction, Santander UK plc and its subsidiaries are not obliged to support any losses that may be suffered by holders of the Notes

Issuances of £2,560m (2011 £6,069m) were made during the year using the Fosse Master Trust

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

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

Principal risks and uncertainties

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 15

Results and dividends

The loss after tax for the year ended 31 December 2012 was £184m (2011 loss of £81m) The Directors do not recommend the payment of a final dividend (2011 £Nil)

Directors

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

T Ranger
SFM Directors Limited
SFM Directors (No 2) Limited

Secretary

Santander Secretariat Services Limited was appointed company secretary on 3 September 2012 following the resignation of Abbey National Nominees Limited

Report of the Directors (continued)

Directors' Responsibilities Statement

The directors are responsible for preparing the report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 these financial statements, International Accounting Standard 1 requires that directors

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

The directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Financial Instruments

The Company's financial instruments, other than derivatives, comprise loans to group undertakings, borrowings, cash and liquid resources, and various items, such as debtors and creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the Company's operations

The Company also enters into derivatives transactions (principally interest rate swaps) The purpose of such transactions is to manage the interest rate risk arising from the Company's sources of finance

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken

All assets, liabilities and transactions are denominated in sterling

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in Note 15

Report of the Directors (continued)

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements In addition, notes 1, 15 and 16, 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 credit risk and liquidity risk

The Directors acknowledge that the Company is in a net liability position Having considered the position of the financial status of the Company and the securitisation structure as a whole, the Directors note that £17,059m (2011 £17,680m) of the liabilities are loans due to fellow group undertakings due after more than one year There is no plan or requirement to settle these loans before their maturity date and therefore the Directors are confident that there will be sufficient funds to meet payments as they fall due The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The Directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future and is well placed to manage its business risks successfully despite the current uncertain economic outlook Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual Report and Accounts

Third Party Indemnities

Enhanced indemnities are provided for the benefit of Mr T Ranger as a Director of the Company by Santander UK plc against liabilities and associated costs which he could incur in the course of his duties to the Company All indemnities remain in force as at the date of this Report and Accounts A copy of each of the indemnities is kept at the registered office address of Santander UK plc

The Company has made qualifying third party indemnity provisions for the benefit of the Directors as set out in a corporate services agreement Indemnities are also provided to the Directors by Structured Finance Management Limited (as corporate services provider) against liabilities and associated costs incurred by them These indemnities remain in force as at the date of the Directors' Report and Financial Statements

Payment Policy

Given the nature of the Company's business, the Company does not have any suppliers and therefore does not operate a payment policy

Auditors

Each of the Directors as at the date of approval of this report confirms 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 Section 418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office Accordingly, in accordance with Sections 485 and 487 of the Companies Act 2006, Deloitte LLP are deemed to have been re-appointed as auditors of the Company

By Order of the Board

Helena Whitaker
Per pro SFM Directors Limited,
As Director

15 March 2013

Registered Office Address

35 Great St Helen's, London, EC3A 6AP

Independent Auditor's Report to the members of Fosse Funding (No.1) Limited

We have audited the financial statements of Fosse Funding No 1 Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Separate opinion in relation to IFRSs as issued by the IASB
As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB)

In our opinion the financial statements comply with IFRSs as issued by the IASB

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Caroline Britton

Caroline Britton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
15 March 2013

FOSSE FUNDING (NO.1) LIMITED - 05925696

Statement of Comprehensive Income
For the year ended 31 December 2012

	Note	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Interest income	3	**474,986**	425,153
Interest expense	4	**(474,976)**	(421,633)
Net interest income		**10**	3,520
Other unrealised fair value losses	5	**(179,870)**	(81,107)
Administration expenses	6	**(3,949)**	(3,203)
LOSS BEFORE TAX		**(183,809)**	(80,790)
Tax	9	**(55)**	(57)
LOSS FOR THE YEAR		**(183,864)**	(80,847)
Other comprehensive expense for the year		**-**	-
TOTAL NET COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDER OF THE COMPANY		**(183,864)**	(80,847)

All results derive from continuing operations

The accompanying notes 1 to 18 form an integral part of the accounts

Statement of Changes in Equity
For the year ended 31 December 2012

	Share Capital £000	Retained Earnings £000	Total £000
At 1 January 2011	-	124,064	124,064
Loss and total comprehensive expense for the year	-	(80,847)	(80,847)
At 31 December 2011 and 1 January 2012	-	**43,217**	**43,217**
Loss and total comprehensive expense for the year	-	(183,864)	(183,864)
At 31 December 2012	-	**(140,647)**	**(140,647)**

The accompanying notes 1 to 18 form an integral part of the accounts

FOSSE FUNDING (NO.1) LIMITED - 05925696

Balance Sheet
As at 31 December 2012

	Note	31 December 2012 £000	31 December 2011 £000
NON CURRENT ASSETS			
Financial assets loans and receivables	10	**15,549,456**	16,655,292
Other assets	11	**11,200**	14,254
Financial instruments derivatives		-	159,993
		15,560,656	16,829,539
CURRENT ASSETS			
Financial assets loans and receivables	10	-	1,282
Other assets	11	**8,898**	10,719
Cash and cash equivalents	12	**1,565,296**	1,077,852
		1,574,194	1,089,853
CURRENT LIABILITIES			
Current tax		**(35)**	(64)
Accruals and deferred income		-	(1,138)
Financial liabilities	13	**(64,460)**	(77,949)
		(64,495)	(79,151)
NET CURRENT ASSETS		**1,509,699**	1,010,702
NON CURRENT LIABILITIES			
Financial liabilities	13	**(17,050,452)**	(17,669,043)
Derivative financial instruments		**(160,550)**	(127,981)
		(17,211,002)	(17,797,024)
NET (LIABILITIES) / ASSETS		**(140,647)**	43,217
EQUITY			
Called up share capital	14	-	-
Retained earnings		**(140,647)**	43,217
TOTAL ORDINARY SHAREHOLDER'S FUNDS		**(140,647)**	43,217

The accompanying notes 1 to 18 form an integral part of the financial statements

These financial statements were approved by the Board of Directors and authorised for issue on 15 March 2013 They were signed on their behalf by

Helena Whitaker
Per pro SFM Directors Limited

As Director

FOSSE FUNDING (NO.1) LIMITED - 05925696

Cash Flow Statement
For the year ended 31 December 2012

	Note	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Operating activities			
Loss before tax		**(183,809)**	(80,790)
Tax paid		**(84)**	(23)
Cash flows from operating loss before changes in operating assets and liabilities		**(183,893)**	(80,813)
Changes in operating assets and liabilities			
Decrease in derivative financial instruments – assets		**159,993**	112,920
Decrease/(increase) in other assets		**4,875**	(3,144)
Increase / (decrease) in derivative financial instruments – liabilities		**32,569**	(48,797)
(Decrease)/ increase in accruals and deferred income		**(1,138)**	526
Net Cash provided by / (used in) operating activities		**12,406**	(19,308)
Investing activities			
Net decrease / (increase) in group loans		**1,107,118**	(4,745,286)
Cash flows provided by /(used in) investing activities		**1,107,118**	(4,745,286)
Financing activities			
New loans from Group company		**2,606,197**	5,398,468
Repayment of loans		**(3,290,158)**	(377,406)
Increase in other financial liabilities		**51,881**	34,168
Cash flows (used in) / provided by financing activities		**(632,080)**	5,055,230
Net increase in cash and cash equivalents		**487,444**	290,636
Cash and cash equivalents at beginning of year		**1,077,852**	787,216
Cash and cash equivalents at end of year	12	**1,565,296**	1,077,852

The accompanying notes 1 to 18 form an integral part of the accounts

Notes to the Financial Statements
For the year ended 31 December 2012

1 Principal accounting policies

The financial statements of Fosse Funding (No 1) Ltd, Company Number 05925696 (the "Company") have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union that are effective or available for early adoption at the Company's reporting date The Company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board

These policies have been consistently applied during the current year and previous year unless otherwise stated

a Accounting convention

The financial statements have been prepared under the historical cost convention 'as modified by the revaluation of derivative financial instruments through profit and loss' to account for the remeasurement of derivatives and on the going concern basis as disclosed in the Statement of Going Concern set out in the Directors' Report

b Presentation of Statement of Comprehensive Income

Due to the nature of the business, the directors are of the opinion that it is more appropriate to use 'Interest income' rather than 'Revenue' in presenting the Statement of Comprehensive Income

c Income recognition

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

d Taxation

The tax expense represents the sum of tax currently payable

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the year 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 periods 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 tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements 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 deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the tax 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 Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

1 Principal accounting policies (continued)

e Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value

Financial assets are classified into the following specified categories financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition The Company does not hold held-to-maturity or AFS financial assets

(1) Financial assets at FVTPL

The Company's financial assets that are classified as FVTPL are derivatives that are not designed in a hedging relationship Derivatives initially recorded at fair value and subsequently remeasured to fair value through profit and loss The Company has no other financial assets classified or designated as FVTPL (see Valuation of financial instruments below)

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Loans and receivables are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method (see impairment of financial assets below)

f Financial liabilities

Financial liabilities include loans and advances to group companies and accrued interest shown within other liabilities on the face of the balance sheet

Financial liabilities are initially recorded at fair value with subsequent re-measurement at amortised cost

The amortisation is to be calculated under the standards on an Effective Interest Rate ("EIR") method The EIR method spreads the expected net interest income arising from a loan over its expected life The EIR is that rate of interest which, at inception, exactly discounts the future cash payment and receipts arising from the loan to the initial carrying amount

g Cash and cash equivalents

For the purposes of the Balance Sheet and Cash Flow Statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term investments in securities

h Derecognition

As a result of IAS 39 "Financial Instruments Recognition and Measurement" the legal transfer of the beneficial interest in the Trust mortgage portfolio from Fosse Trustee Limited to the Company fails the criteria for derecognition As no transfer has occurred for accounting purposes the beneficial interest has not been recognised in the Company's financial statements and remains on the Balance Sheet of Santander UK plc

The beneficial interest in the mortgage portfolio is replaced by a related party loan included in Loans and advances to related parties on the Company's Balance Sheet The related party loan is recorded at the book value of the beneficial interest in the mortgage portfolio to Santander UK plc at the time of transfer less any subsequent transfers and repayments of capital Management assess the recoverability of the related party loan on an annual basis but have concluded that no such provision is needed due to the overcollaterization of the Fosse trust structure

1 Principal accounting policies (continued)

i 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 has 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

Impairment losses are assessed individually for the financial assets that are individually significant and individually or collectively for assets that are not individually significant For individually assessed assets, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of the estimated future cash flows from the asset or group of assets discounted at the original effective interest rate of the asset

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is continued to be recognised on an effective interest rate basis, though on the asset value after provisions have been deducted

Impairment losses are recognised in the Statement of Comprehensive Income and the carrying amount of the financial asset or group of financial reduced by establishing an allowance for impairment losses If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance

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

j Critical accounting estimates and areas of significant management judgement

The preparation of the Company's 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 other factors that are believed to be reasonable under the circumstances Actual results may differ from these estimates under different assumptions or conditions Estimates and judgements that are considered important to the portrayal of the Company's financial condition including, where applicable, quantifications of the effects of reasonably possible ranges of such estimates and judgements are set out in the Accounting Policies in the Financial Statements

k Deferred consideration

Under the terms of the mortgage sale agreement, Santander UK plc, as the originator of the mortgage loans, legally retains the right to receive excess income (deferred consideration) arising on those loans, after certain higher priority payments have been met Deferred consideration is disclosed within interest income with accruals recognised for any outstanding amounts

1 Principal accounting policies (continued)

l Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative The Company does not apply hedge accounting

m Related party transactions

Santander UK plc, the Company's UK controlling undertaking is incorporated in Great Britain and registered in England and Wales Santander UK plc performs the administration, operations, accounting, and financial reporting functions of the Company Related party transactions with group undertakings are detailed in their respective notes

n Changes to Accounting Standards

Recent accounting developments

In 2012, the Company adopted the following amendments to standards which became effective for financial years beginning on 1 January 2012

a) IFRS 7 'Financial Instruments Disclosures' – In October 2010, the IASB issued amendments to IFRS 7 that increase the disclosure requirements for transactions involving transfers of financial assets The amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period The amendments to IFRS 7 are effective for annual periods beginning on or after 1 July 2011, with earlier application permitted Disclosures are not required for comparative periods before the date of initial application of the amendments
These changes did not have an impact on the Company's financial statements

b) There are a number of other changes to IFRS that were effective from 1 January 2012 Those changes did not have a significant impact on the Company's financial statements

Future accounting developments
The Company 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 the Company

a) IAS 1 'Presentation of Financial Statements' – In June 2011, the IASB issued amendments to IAS 1 that retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories (i) items that will not be reclassified subsequently to profit or loss, and (ii) items that will be reclassified subsequently to profit or loss when specific conditions are met Income tax on items of other comprehensive income is required to be allocated on the same basis The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012
The Company anticipates that IAS 1 (2011) will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard will modify the presentation of items of other comprehensive income accordingly Retrospective application is required The Company does not anticipate that these amendments to IAS 1 will have a significant impact on the Company's disclosures

1 Principal accounting policies (continued)

Future accounting developments (continued)

b) IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – In May 2011, the IASB issued new and amended guidance on consolidated financial statements and joint arrangements IFRS 10, IFRS 11 and IFRS 12 were new standards issued while IAS 27 and IAS 28 were amended Each of the standards issued is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted as long as each of the other standards is also applied earlier

> Under IFRS 10 'Consolidated Financial Statements', control is the single basis for consolidation, irrespective of the nature of the investee, this standard therefore eliminates the risks-and-rewards approach IFRS 10 identifies the three elements of control as power over the investee, exposure, or rights, to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns An investor must possess all three elements to conclude that it controls an investee The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes to at least one of the three elements Retrospective application is required subject to certain transitional provisions

> IFRS 11 applies to all entities that are parties to a joint arrangement A joint arrangement is an arrangement of which two or more parties have joint control IFRS 11 establishes two types of joint arrangements, joint operations and joint ventures, which are distinguished by the rights and obligations of the parties to the arrangement In a joint operation, the parties to the joint arrangement (referred to as 'joint operators') have rights to the assets and obligations for the liabilities of the arrangement By contrast, in a joint venture, the parties to the arrangement (referred to as 'joint venturers') have rights to the net assets of the arrangement IFRS 11 requires that a joint operator recognise its share of the assets, liabilities, revenues, and expenses in accordance with applicable IFRSs, however, a joint venturer would account for its interest by using the equity method of accounting under IAS 28 (2011) Transitional provisions vary depending on how an interest is accounted for under IAS 31 and what its nature is under IFRS 11

> IFRS 12 integrates the disclosure requirements on interests in other entities, currently included in several standards to make it easier to understand and apply the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities The standard also contains additional requirements on a number of topics Under IFRS 12, an entity should disclose information about significant judgements and assumptions (and any changes to those assumptions) made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement IFRS 12 also requires additional disclosures to provide information to enable users to assess the nature of, and risks associated with the Company's interests in other entities and the effect of those interests on the Company's financial position, performance and cash flow Disclosures shall be aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics The standard applies prospectively from the beginning of the annual period in which it is adopted

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 that clarify the transitional guidance in IFRS 10 Consolidated Financial Statements, IFRS 11 Joints Arrangements and IFRS 12 Disclosure of Interest in Other Entities The amendments provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12 by limiting the requirement to provide adjusted comparative information to only the preceding comparative period, and are in response to constituent requests for clarification on certain aspects of the transition guidance

The Company anticipates that IFRS 10, IFRS 11 and IFRS 12 will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013

The Company does not anticipate that the application of the new standards will have a significant impact on its profit or loss or financial position but expects to enhance its disclosures around holdings of structured entities as a result of IFRS 12

> IAS 27 was amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements

> IAS 28 was amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11

The Company anticipates that IAS 27 (2011) and IAS 28 (2011) will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013 The Company does not anticipate that these amendments to IAS 27 and IAS 28 will have a significant impact on its disclosures and on amounts reported in respect of the Company's profit or loss, financial position or disclosures

Notes to the Financial Statements
For the year ended 31 December 2012

1 Principal accounting policies (continued)

Future accounting developments (continued)

c) IFRS 13 'Fair Value Measurement' - In May 2011, the IASB issued IFRS 13, which establishes a single source of guidance for fair value measurement IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current accounting standards IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which it is adopted
The Company anticipates that IFRS 13 will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013 The Company does not anticipate that the application of the new standards will have a significant impact on its profit or loss, financial position or disclosures

d) IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 'Financial Instruments ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments
Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted IFRS 9 is required to be applied retrospectively but prior periods need not be restated
The second and third phases in the IASB's project to replace IAS 39 will address impairment of financial assets measured at amortised cost and hedge accounting
The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2012 to address practice and other issues, with an exposure draft of revised proposals issued in November 2012
The Company anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning on 1 January 2015 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed

e) IAS 19 'Employee Benefits' – In June 2011, the IASB issued amendments to IAS 19 that change the accounting for defined benefit plans and termination benefits The most significant change relates to the accounting for changes in defined benefit obligations and plan assets The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions
The Company anticipates that IAS 19 (2011) will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013 The Company does not anticipate that these amendments to IAS 19 will have a significant impact on its profit or loss or financial position as the Company does not utilise the 'corridor approach'

f) In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods The amendments are required to be applied retrospectively

Notes to the Financial Statements
For the year ended 31 December 2012

1 Principal accounting policies (continued)

Future accounting developments (continued)

g) In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments Presentation' The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively
The Company is currently assessing the impact of these clarifications but it is not practicable to quantify the effect as at the date of the publication of these financial statements

h) There are a number of other standards which have been issued or amended that are expected to be effective in future periods However, it is not practicable to provide a reasonable estimate of their effects on the Company's financial statements until a detailed review has been completed

o Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss ('FVTPL'), including those held for trading purposes, or available-for-sale, and all derivatives, are stated at fair value The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing knowledgeable parties, other than in a forced or liquidation sale

Initial measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in profit or loss on initial recognition Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price

Subsequent measurement

Fair value hierarchy

The Company applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs The three categories are quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3) If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability

The Company categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows

Level 1 Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date Level 1 positions include debt securities, equity securities, exchange traded derivatives and short positions in securities The Company has no assets or liabilities measured at fair value that are classified as Level 1

Level 2 Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability Level 2 positions include loans and advances to banks, loans and advances to customers, equity securities, exchange rate derivatives, interest rate derivatives, equity and credit derivatives, debt securities, deposits by banks, deposits by customers, debt securities in issue, amounts due to banks, and amounts due to customers

Level 3 Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable The Company has no assets or liabilities measured at fair value that are classified as Level 3

1 Principal accounting policies (continued)

Fair value hierarchy (continued)

The Company assesses active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument The Company assesses active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity The Company assesses active markets for exchange traded derivatives based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument

Market activity and liquidity is discussed in the relevant monthly Risk Forum as well as being part of the daily update given by each business at the start of the trading day This information, together with the observation of active trading and the magnitude of the bid-offer spreads allow consideration of the liquidity of a financial instrument All underlying assets and liabilities are reviewed to consider the appropriate adjustment to mark the mid price reported in the trading systems to a realisable value This process takes into account the liquidity of the position in the size of the adjustment required These liquidity adjustments are presented and discussed at the monthly Risk Forum

In determining the appropriate measurement levels, the Company performs regular analyses on the assets and liabilities All underlying assets and liabilities are regularly reviewed to determine whether a position should be regarded as illiquid, the most important practical consideration being the observability of trading Where the bid-offer spread is observable, this is tested against actual trades If trades are not observed, the bid-offer spread is disregarded as a sign of liquidity and the position is regarded as illiquid

Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated based on the market price

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices Valuation parameters for each type of financial instrument are discussed below

The Company did not make any material changes to the valuation techniques and internal models it used during the year ended 31 December 2012

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Notes to the Financial Statements
For the year ended 31 December 2012

1 Principal accounting policies (continued)

Fair value valuation bases

The following tables summarise the fair values at 31 December 2012 of the asset and liability classes accounted for at fair value, by the valuation methodology used by the Company to determine their fair value The tables also disclose the percentages that the recorded fair values of financial assets and liabilities represent of the total assets and liabilities, respectively, that are recorded at fair value in the balance sheet

31 December 2012 Balance sheet category	Level 1 £000	%	Internal models based on Level 2 £000	%	Level 3 £000	%	Total £000	%	Valuation technique
Liabilities									
Financial Liabilities designated at fair value - derivative liabilities (interest rate contracts)	-		(160,550)	100	-		(160,550)	100	A
Total liabilities at fair value	**-**		**(160,550)**	**100**	**-**		**(160,550)**	**100**	

31 December 2011 Balance sheet category	Level 1 £000	%	Internal models based on Level 2 £000	%	Level 3 £000	%	Total £000	%	Valuation technique
Assets									
Financial assets designated at fair value - derivative assets (interest rate contracts)	-		159,993	100	-	-	159,993	100	A
Total assets at fair value	**-**		**159,993**	**100**	**-**	**-**	**159,993**	**100**	
Liabilities									
Financial Liabilities designated at fair value - derivative liabilities (interest rate contracts)	-		(127,981)	100	-		(127,981)	100	A
Total liabilities at fair value	**-**		**(127,981)**	**100**	**-**		**(127,981)**	**100**	

There have been no transfers between the levels during the current and preceding year

1 Principal accounting policies (continued)

Valuation techniques

The main valuation techniques employed in the Company's internal models to measure the fair value of the financial instruments disclosed above at 31 December 2012 are set out below The principal inputs into these models are derived from observable market data

A In the valuation of financial instruments requiring static hedging (for example interest rate and currency derivatives) and in the valuation of loans and advances and deposits, the 'present value' method is used Expected future cash flows are discounted using the interest rate curves of the applicable currencies The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cashflows and maturities of the instruments

B In the valuation of equity financial instrument requiring dynamic hedging (principally equity securities, options and other structured instruments), proprietary stochastic volatility models are used These types of models are widely accepted in the financial services industry Observable market inputs are used in these models to generate variables such as the bid-offer spread, foreign currency exchange rates, credit risk, volatility, correlation between indices and market liquidity as appropriate

C In the valuation of financial instruments exposed to interest rate risk that require either static or dynamic hedging (such as interest rate futures, caps and floors, and options), the present value method (futures), Black's model (caps/floors) and the Markov functional model (Bermudan options) are used These types of models are widely accepted in the financial services industry The significant inputs used in these models are observable market data, including appropriate interest rate curves, volatilities, correlations and exchange rates

In determining fair value, the Company also considers both the credit risk of its counterparties, as well as its own creditworthiness The Company attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments The Company generally calculates the credit risk adjustment for derivatives on observable credit data

Credit risk is measured using dynamic models that calculate the probability and potential future exposure given default The main inputs used in these models are generally data relating to individual issuers in the portfolio and correlations thereto The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads and the correlation between individual issuers' quoted credit derivatives

2 Segmental reporting

The Company operates in one business sector and all of the Company's activities are in the UK

3 Interest income

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Interest income on loan to fellow Group undertaking	**465,447**	418,489
Other interest income	**9,539**	6,664
	474,986	425,153

Notes to the Financial Statements
For the year ended 31 December 2012

4 Interest expense

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
On loans repayable after more than five years		
Interest on loans from fellow Group undertaking	**379,389**	295,511
Interest on subordinated loan from fellow Group undertaking	**9,144**	9,481
Derivative interest	**86,443**	116,641
	474,976	421,633

5 Other unrealised fair value losses

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Fair value movements of derivatives	**179,870**	81,107

The fair value movements of future cash flows on derivatives are separately identified within 'Unrealised fair value gains and losses'

6 Administrative expenses

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Professional fees	**514**	226
Administration fees and bank charges	**3,435**	2,977
	3,949	3,203

7 Loss before tax

The audit fee for the current period has been paid on the Company's behalf by its UK controlling undertaking, Santander UK plc, in accordance with Company policy, for which no charge has been made The audit fee for the current year is £11,700 (2011 £11,700)

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the Santander UK plc consolidated financial statements are required to disclose such fees on a consolidated basis

8 Directors' emoluments

Directors' emoluments for Mr T Ranger are borne by the UK controlling undertaking, Santander UK plc (2011 position unchanged)

During the year under review no other Directors apart from Mr Ranger were remunerated for their services to the Company in respect of qualifying services (2011 £nil) Corporate Service fees of £3,550 which included fees for the provision of directors were paid by the Company to Structured Finance Management Limited (2011 £4,216)

The Company has no employees (2011 nil)

Notes to the Financial Statements
For the year ended 31 December 2012

9 Corporation tax

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Current taxation		
Current year corporation tax expense	**35**	64
Adjustments to current tax of prior period	**20**	(7)
Current tax expense	**55**	57
Total corporation tax expense	**55**	57

UK corporation tax is calculated at 24 5% (2011 26 5%) of the estimated assessable profits for the year The standard rate of UK corporation tax was reduced from 26% to 24% with effect from 1 April 2012

The Finance Act 2012, which provides for a reduction in the main rate of UK corporation tax to 23% effective from 1 April 2013 was enacted on 17 July 2012 The small profits rate of UK corporation tax rate remains at 20% The UK Government has also indicated that it intends to enact a further reduction in the main tax rate down to 21% by 1 April 2014

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Loss before tax	**(183,809)**	(80,790)
Tax calculated at a rate of 24 5% (2011 26 5%)	**(45,033)**	(21,409)
Benefit of small profits rate	**(8)**	-
Non taxable income and disallowable expenses	**45,076**	21,473
Prior year adjustments	**20**	(7)
Corporation tax expense	**55**	57

10 Financial assets loans and receivables

	31 December 2012 £000	31 December 2011 £000
Non current		
Receivable from Santander UK – amortised cost	**15,549,456**	16,655,292
Total	**15,549,456**	16,655,292
Current		
Receivable from Santander UK – amortised cost	-	1,282
Total	-	1,282

11 Other assets

	31 December 2012 £000	31 December 2011 £000
Non current		
Issuance fees	**11,200**	14,254
Total	**11,200**	14,254
Current		
Issuance fees	**8,898**	10,719
Total	**8,898**	10,719

12 Cash and cash equivalents

	31 December 2012 £000	31 December 2011 £000
Deposits with Group undertakings	**1,565,296**	1,077,852
	1,565,296	1,077,852

A cash deposit of £1 is held by SFM Corporate Services Limited in the name of and benefit for the Company, and is accessible by the Company on demand

Notes to the Financial Statements
For the year ended 31 December 2012

13 Financial liabilities

	Current £000	Non- current £000	Total £000
At 31 December 2012			
Loan from fellow Group undertaking			
Due within one year	63,023	-	63,023
Due after five years	-	16,555,543	16,555,543
Subordinated loan from fellow Group undertaking			
Due within one year	1,437		1,437
Due after five years	-	494,909	494,909
	64,460	**17,050,452**	**17,114,912**
At 31 December 2011			
Loan from fellow Group undertaking			
Due within one year	75,958	-	75,958
Due after one year	-	17,133,371	17,133,371
Subordinated loan from fellow Group undertaking			
Due within one year	1,991	-	1,991
Due after one year	-	535,672	535,672
	77,949	17,669,043	17,746,992

14 Share capital

	31 December 2012 £	31 December 2011 £
Issued and fully paid		
1 ordinary share of £1 each	1	1

Notes to the Financial Statements
For the year ended 31 December 2012

15 Risk management policy and control framework

The Company was established as a special purpose company for the purposes of borrowing from fellow Group undertakings and investing in a portfolio of mortgage assets held by a fellow Group undertaking

The principal objects of the Company are set out in its memorandum of association and include

- carrying on business as a general commercial company,
- borrowing or raising money by any method and to obtain any form of credit or finance, and
- securing the payment of any monies, the discharge of any liabilities and the observance or performance of any kind of obligations by any charge over the whole or any part of its undertaking or assets

The activities of the Company are limited to owning an interest in the mortgage portfolio, borrowing funds under the intercompany loan agreements and other activities reasonably incidental thereto by the terms and conditions of the transaction documents under which the Notes are issued

The principal risks arising from the Company's financial instruments (both assets and liabilities) are operational risk, credit risk, interest rate risk, and liquidity risk The principal nature of such risks are summarised below

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due

The Company's ability to make payments of principal and interest on the intercompany loan and to pay its operating and administrative expenses will depend primarily on payments received from the underlying mortgage loans held in the Fosse Master Trust for its benefit The quality of the underlying mortgage loans is covered by eligibility criteria as set out in the transaction documents

In addition, the Company relies on interest rate swaps to make payments on the intercompany loan

The Company is not required to make payments under the intercompany loan agreement if it has insufficient resources to do so

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of the loans and advances to group companies as disclosed in Note 10 and the fair value of derivative financial assets as shown in the Balance Sheet

Santander UK plc's credit rating is disclosed below as the financial assets of the Fosse securitisation structure are secured on mortgage assets within Santander UK plc Details and the performance of the underlying mortgage assets are disclosed in the Santander UK plc accounts and quarterly investor reports of Fosse Master Trust

Santander UK plc's credit ratings as at 31 December 2012 were

	S&P	Moody's	Fitch
Long-term rating	A	A2	A
Long-term rating outlook	Negative	Negative	Stable
Short term	A1	P-1	F1

The Fosse structure comprising the immediate parent and fellow subsidiaries is over collateralised by £3 2bn (2011 £2 1bn) The structure also has cash balances of £2 0bn (2011 £1 6bn) which also act as a credit enhancement

15 Risk management policy and control framework (continued)

Interest Rate Risk

The Company's key interest rate risk is between GBP LIBOR based interest expense on the intercompany loans and the payments received from the mortgage portfolio where the underlying interest rates include amounts based on fixed interest rates, rates linked the Bank of England base rate and rates linked to Santander UK plc standard variable rate This exposure is mitigated by an interest rate swap with a fellow Group undertaking
A 50bp increase or decrease in interest rates would have an immaterial impact on the Statement of Comprehensive Income and on net assets

Liquidity risk

Liquidity risk is the potential 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's ability to meet its obligations will depend primarily on payments being received by it under the intercompany loan agreement Such payments are held in cash or liquid assets in accordance with the terms of the transaction documents until paid to holders of the Notes

The following tables analyse the Company's non-derivative liabilities into relevant maturity groupings based on the remaining period at the Balance Sheet date (to contractual maturity) These have been drawn on the undiscounted contractual maturities of financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity

2012	Less than one month £000	One to three months £000	Three to twelve months £000	One to five years £000	Over five years £000	Total £000
Loans from fellow Group undertakings	54,125	-	-	-	16,564,441	16,618,566
Other amounts due from fellow Group undertakings	1,437	-	-	-	494,909	496,346
Accruals	-	-	35	-	-	35
Interest payable	-	76,899	230,698	1,230,388	11,381,088	12,919,073
	55,562	**76,899**	**230,733**	**1,230,388**	**28,440,438**	**30,034,020**
2011						
Loans from fellow Group undertakings	65,239	-	-	-	17,144,090	17,209,329
Other amounts due from fellow Group undertakings	1,991	-	-	-	535,672	537,663
Accruals	-	1,138	64	-	-	1,202
Interest payable	-	91,231	273,692	1,459,692	13,867,072	15,691,687
	67,230	92,369	273,756	1,459,692	31,546,834	33,439,881

These figures reflect the contractual maturity on securitisation to 2013 and 2054

15 Risk management policy and control framework (continued)

The following table gives the Company's contractual maturity for its derivative financial instruments The table has been drawn up based on undiscounted net cash inflows / (outflows) on the derivative instruments which settle on a net basis and the undiscounted gross outflows on those derivatives that require gross settlement When the amount payable or receivable is not fixed, the amounts disclosed have been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date

Derivative financial instruments 2012	Less than one month £000	One to three months £000	Three to twelve months £000	One to five years £000	Over five years £000	Total £000
Assets	-	-	-	-	-	-
Liabilities	(29,268)	-	(74,206)	(74,824)	17,245	(161,053)
Total	(29,268)	-	(74,206)	(74,824)	17,245	(161,053)
2011						
Assets	3,979	-	22,072	136,790	3,400	166,241
Liabilities	(23,640)	-	(56,133)	(45,141)	-	(124,914)
Total	(19,661)	-	(34,061)	91,649	3,400	41,327

Derivatives

A derivative is an agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other financial prices Derivatives are used to manage interest and currency risks by the Company

The use of derivatives is determined in the transaction documents at the time of issue of each series of notes

Loans and advances to fellow Group undertaking and due from banks

Floating rate loans and advances and deposits are recorded in the Balance Sheet at amortised cost, less provisions for impairment This value is considered to be a good approximation for fair value

16 Capital management and financial resources

Capital held by the Company and managed centrally as part of the Santander UK group, comprises share capital and reserves

Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital The Company is designed to hold minimum reserves once all amounts due have been received and amounts owing have been paid The Company's capital is not externally regulated

Notes to the Financial Statements
For the year ended 31 December 2012

17 Related party transactions

During the year, fees of £10,159 (2011 £23,122) were charged by Structured Finance Management Limited in respect of corporate services fees, which included fees for the provision of directors to the Company

There have been no transactions with key management personnel during the year, other than those disclosed elsewhere in these accounts in respect of transactions with Structured Finance Management Limited

During the year, the Company entered into the following transactions with related parties

	Interest Expense		Amounts due to related parties		Interest Income		Amounts due from related parties		Cash and cash equivalents	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Santander UK plc Group	**95,587**	126,122	**899,273**	719,127	**474,986**	425,467	**15,549,456**	16,816,566	**1,565,296**	1,077,852
Fosse Master Issuer	**379,389**	295,511	**16,376,189**	17,026,592	-	-	-	-	-	-

Included within amounts due to related parties is £160,550,000 (2011 £127,981,000) of derivative liabilities relating to interest rate contracts

18 Parent undertaking and controlling party

The entire issued share capital of the Company is held by Fosse (Master Issuer) Holdings Limited The shares in Fosse (Master Issuer) Holdings Limited are held by SFM Corporate Services Limited, a wholly owned subsidiary of Structured Finance Management Limited, on a discretionary trust basis for the benefit of certain charities

Copies of the financial statements of SFM Corporate Services Limited may be obtained from 35 Great St Helen's, London, EC3A 6AP

In accordance with SIC 12 "Consolidation – Special Purpose Entities", the Company is controlled by Santander UK plc and is therefore consolidated in the Santander UK Group accounts Santander UK plc is incorporated in Great Britain and is registered in England and Wales

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

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