COMPANY REGISTRATION NUMBER FC028362

A & L CF (GUERNSEY) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2008

A & L CF (GUERNSEY) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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A & L CF (GUERNSEY) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

FOR THE YEAR ENDED 31 DECEMBER 2008

Company registration number	FC028362
The board of directors	M W Evans C S Jones C R Morley W H Paterson
Company secretary	R A Hawker
Registered office	Level 1 Regency Court Glategny Esplanade St Peter Port Guernsey GY1 3ST
Auditor	Deloitte LLP Chartered Accountants & Registered Auditors Birmingham
Bankers	Alliance & Leicester plc Bridle Road Bootle Merseyside L30 4GB

A & L CF (GUERNSEY) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and the audited financial statements for the year ended 31 December 2008.

RESULTS AND DIVIDENDS

The trading results for the year, and the Company's financial position at the end of the year are shown in the attached financial statements. The directors have not recommended a dividend (2007: £Nil).

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of Alliance & Leicester plc and operates as part of the Group's Commercial Bank Division.

The Company's principal activities are those of lessors and financiers of assets for the corporate sector.

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

As shown in the Company's income statement on page 9, the Company's profit from operations increased during the year compared to the prior year.

The balance sheet on page 11 shows that the net assets of the Company increased during the year. Details of amounts owed to the Company's immediate parent undertaking at 31 December 2008 are shown in note 12 to the financial statements.

The Banco Santander S.A., Abbey National plc and Alliance & Leicester plc groups manage operations on a divisional basis. For this reason, the Company's Directors believe that non-financial key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Banco Santander S.A. and Alliance & Leicester plc which include the Company, are discussed in the Annual Reports of these companies, which do not form part of this Report.

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

Profit from operations:
2008: £1,340,654
2007: £1,071,564

Customer exposure:
2008: £25,773,128
2007: £25,660,356

STATEMENT OF GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. The Company's objectives, policies and processes for managing its capital are described in note 11 to the financial statements.

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

The Company is part of the Abbey National Group. The Company has net current liabilities and is reliant on other companies in the Abbey National Group for a significant proportion of its funding. The Board of Abbey National plc has confirmed that it is a going concern, and that it will provide funding to the Company for the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing their annual report and the financial statements.

POST BALANCE SHEET EVENTS

As disclosed in note 16 to the financial statements, subsequent to the year-end the ultimate parent company, Banco Santander S.A., transferred its shares in this Company's intermediate parent company, Alliance & Leicester plc, to Abbey National plc.

DIRECTORS

The following persons were directors of the Company during the year:

M W Evans	
C S Jones	
C R Morley	
W H Paterson	
M C Rogers	(appointed 1 April 2008, resigned 25 November 2008)
R L Towers	(resigned 1 April 2008)

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance with the Company (2007: none).

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk and liquidity risk. The Company's risks were managed during the year on a group level by the intermediate parent company, Alliance & Leicester plc, and the ultimate parent company, Banco Santander S.A..

The lending book of the Company relates to a single customer in the film industry and the credit risks specific to this lending book are disclosed in note 5 to the financial statements. The directors do not expect any significant change in the level of business in the foreseeable future.

A & L CF (GUERNSEY) LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The Company is mainly financed by loans from its immediate parent undertaking and the level of the third party debt is not considered to be material. The funding has no fixed repayment date and is therefore repayable on demand, which creates uncertainty in respect of the future funding position of the Company. This risk is mitigated by the fact that the Board of the parent company, Abbey National plc, has confirmed that the funding will remain in place for the foreseeable future. Abbey National plc is itself exposed to negative impacts on the availability of liquidity and on levels of capital arising out of the current economic climate. In confirming the availability of funding to the Company, the Board of Abbey National plc has taken account of its own ability to manage these risks. More details on the management of these risks is given in Note 5.

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

DISCLOSURE OF INDEMNITIES

The directors confirm that:-

a) at the time this Directors' Report is signed a qualifying third party indemnity provision (provided by the intermediate parent company Alliance & Leicester plc) is in force for the benefit of all the directors of the Company;

b) for the financial year ended 31 December 2008 a qualifying third party indemnity provision (provided by the intermediate parent company Alliance & Leicester plc) was in force for the benefit of all the directors of the Company and;

c) that there is no qualifying third party indemnity provision provided by the Company for one or more directors of an associated company either on the date the Directors' Report is signed or in the last financial year.

AUDITORS

On 1 December 2008 the Company's auditors changed their name from Deloitte & Touche LLP to Deloitte LLP.

Deloitte LLP have expressed a willingness to continue in office as auditor. Accordingly, a resolution to ratify their appointment and to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the board on 27 February 2009 and signed on its behalf by

C R Morley
Director

A & L CF (GUERNSEY) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2008

The directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for that period. In preparing those financial statements, the Directors are required to accordance with The Companies (Guernsey) Law 1994 to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of A & L CF (Guernsey) Limited for the year ended 31 December 2008 which comprise the Income Statement, the Statement of Recognised Income and Expenses, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with the Companies (Guernsey) Law 1994. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law 1994. We also report to you if, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and the other information contained in the report for the above period and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board, of the state of affairs of the company as at 31 December 2008 and of the company's profit for the year to 31 December 2008;

- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law 1994; and

- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Birmingham
United Kingdom

6 March 2009

A & L CF (GUERNSEY) LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	2007 £
Revenue		**1,419,378**	1,139,147
Cost of sales		**-**	-
GROSS PROFIT		**1,419,378**	1,139,147
Administrative expenses		**(78,724)**	(67,583)
PROFIT FROM OPERATIONS	7	**1,340,654**	1,071,564
Finance costs	8	**(1,200,385)**	(1,022,712)
PROFIT BEFORE TAX		**140,269**	48,852
Corporation tax expense	9	**(39,977)**	(14,656)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF A & L CF (GUERNSEY) LIMITED		**100,292**	34,196

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2008

There are no other items of recognised income or expense in either the current or previous financial year other than the profit (2007: profit) for the financial year.

All of the activities of the Company are classed as continuing.

The notes on pages 13 to 24 form part of these financial statements.

A & L CF (GUERNSEY) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 January 2008	2	34,196	34,198
Profit for the year	-	100,292	100,292
Balance at 31 December 2008	2	134,488	134,490

	Issued capital £	Retained earnings £	Total Equity £
Balance at 1 January 2007	2	-	2
Profit for the year	-	34,196	34,196
Balance at 31 December 2007	2	34,196	34,198

The notes on pages 13 to 24 form part of these financial statements.

A & L CF (GUERNSEY) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	2008 £	2007 £
ASSETS			
NON CURRENT ASSETS			
Trade and other receivables	10	**25,284,555**	25,295,655
		25,284,555	25,295,655
CURRENT ASSETS			
Trade and other receivables	10	**448,573**	364,701
Cash and cash equivalents	13	-	-
		448,573	364,701
TOTAL ASSETS		**25,733,128**	25,660,356
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	14	**2**	2
Retained profit		**134,488**	34,196
FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF A & L CF (GUERNSEY) LIMITED		**134,490**	34,198
CURRENT LIABILITIES			
Trade and other payables	15	**25,598,638**	25,626,158
TOTAL EQUITY AND LIABILITIES		**25,733,128**	25,660,356

The notes on pages 13 to 24 form part of these financial statements.

Approved by the Board on 27 February 2009 and signed on its behalf by

C R Morley
Director

A & L CF (GUERNSEY) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	2007 £
Total profit for the year		**100,292**	34,196
NON-CASH ADJUSTMENTS			
Increase in trade and other receivables		**(72,772)**	(25,660,356)
		27,520	(25,626,160)
CASH FLOWS FROM OPERATING ACTIVITIES			
Group relief received from parent undertakings		**25,321**	14,656
Interest paid to parent undertakings		**(1,200,385)**	(1,022,712)
Management charges paid to parent undertakings		**(78,724)**	(67,583)
		(1,253,788)	(1,075,639)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(1,226,268)**	(26,701,799)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of cash advances from parent undertakings		**1,226,268**	26,701,799
		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents as at 1 January		-	-
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	13	-	-

The notes on pages 13 to 24 form part of these financial statements.

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

The Company's financial statements for the year were authorised for issue on 27 February 2009 and the balance sheet signed on the board's behalf by C R Morley. A & L CF (Guernsey) Limited is a company incorporated in Guernsey and registered in England and Wales as an overseas branch. The Company's registered office is shown on page 2.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted for use by the European Union. The principal accounting policies adopted by the Company are set out in note 2.

Results and disclosures for the comparative year are on the same basis as the 2008 results.

2. ACCOUNTING POLICIES

Accounting convention

The Company prepares its accounts under the historical cost convention and on the going concern basis. The directors continue to adopt the going concern basis as disclosed in the Directors' Report - Statement of Going Concern. The principal policies adopted are set out below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes. Revenue from finance leases is recognised in accordance with the Company's policy on Finance Lease Receivables (see below).

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

Interest expense recognition

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

Finance lease agreements

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

Finance lease receivables

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

2. ACCOUNTING POLICIES (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'Profit before tax' as reported in the Income Statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit also includes items that are taxable or deductible that are not included in 'Profit before tax'. The Company's liability for current tax and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

Financial assets

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

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

Loans and receivables are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the income statement.

Financial liabilities

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

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

2. ACCOUNTING POLICIES (continued)

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

Foreign currencies

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

CHANGES TO IFRS NOT ADOPTED IN 2008 ACCOUNTS

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

Standard/Interpretation	Issued	Effective for periods commencing on or after
Amendments to IAS 1 Presentation of financial statement - A revised presentation[1]	Sep 2007	1 Jan 2009
Amendment to IAS 23 Borrowing costs[1]	Mar 2007	1 Jan 2009
IFRIC 13 Customer Loyalty Programmes[2]	Oct 2007	1 Jul 2008
IFRIC 15 Agreements for the Construction of Real Estate	July 2008	1 Jan 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	July 2008	1 Oct 2008
IFRS 3 (revised) Business combinations[3]	Jan 2008	1 Jul 2009
Amendments to IAS 27 Consolidated and separate financial statements[3]	Jan 2008	1 Jul 2009
Amendment to IAS 32 Financial Instruments presentation	Feb 2008	1 Jan 2009
Amendment to IAS 39 Eligible hedged items	Jul 2008	1 July 2009

Notes:

1. May be adopted prior to endorsement as long as there is no conflict with the current standard.
2. May be adopted prior to endorsement as interpretative only.
3. May not be adopted prior to endorsement. These two Standards are expected to apply prospectively so there will be no retrospective adjustment to balances currently being reported when presented as comparatives.

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

3. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

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

Residual values

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

Impairment Provisions

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

Effective interest rate calculations

IAS 39 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the EIR methodology. In order to calculate EIR, the contracted repayment profile is used. If customers repay earlier than anticipated, this will generally lead to an increase in the balance sheet carrying value and a gain in the income statement.

4. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Abbey Group. Abbey's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Abbey Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Abbey 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 Abbey Group's strategic objectives. Authority flows from the Abbey National plc Board to the Chief Executive Officer and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management and oversight. Further information can be found in the Abbey National plc Annual Report which does not form part of this report.

5. RISK MANAGEMENT DISCLOSURES

Operational risk

Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'. Operational risk is monitored by the independent operational risk teams within Alliance & Leicester plc and Banco Santander S.A.. The operational risk team has the overall responsibility for ensuring effective operation of the framework within which operational risk is managed, and for its consistent application across group companies. Day to day management of operational risk rests with line managers. It is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning.

Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Company as and when they fall due. The credit quality of customer assets is mitigated by the credit approval process in place. Credit risk is mitigated by security taken over the borrower's assets. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

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

5. RISK MANAGEMENT DISCLOSURES (continued)

The class of financial instrument that is most exposed to credit risk in the Company is loan agreements. The net investment in loan agreements at 31 December 2008 was £25,733,128 (31 December 2007: £25,660,356).

For the Company, 100% (2007: 100%) of the balances are secured. The main types of security are charges over assets being financed, such as films. In addition £Nil (2007: £Nil) of loan agreements are secured by bank guarantees.

The lending book in this company in the current year is wholly related to the film industry.

All exposures are with a single customer in the corporate sector.

Arrears and impairment

Asset quality remains good with £Nil lending balances over 30 days in arrears at 31 December 2008 (2007: £3,119).

The carrying value of repossessed stock at 31 December 2008 was £Nil (2007: £Nil).

The fair value of collateral on impaired assets at 31 December 2008 was £Nil (2007: £Nil).

Interest accrued on impaired assets at 31 December 2008 was £Nil (2007: £Nil).

The portfolio is subject to regular monitoring for potential impairment. This monitoring includes review of each counterparty's repayment record and examination of new financial and business sector information relevant to each counterparty. In the event of deterioration in a counterparty's creditworthiness being identified through this monitoring a thorough analysis is undertaken to establish the full circumstances surrounding the cause and severity of that deterioration. Where this indicates a reasonable expectation that future anticipated cashflows may not be received, the asset originating these doubtful cashflows is deemed to be impaired. Typical reasons for an impairment charge being made include counterparty insolvency, failure to make agreed repayments or a breach of a covenant included within facility documentation.

£Nil (2007: £Nil) of loans that would have been past due or impaired, have had their terms renegotiated.

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

Market risk

Market risk is the potential adverse change in Company income or the value of Company net worth arising from movements in market rates, including interest rates, exchange rates, inflation rates and equity prices. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value, and manages market risk accordingly. Details of the market risk management policy are disclosed in the Risk Management Policy and Control Framework in the Alliance & Leicester plc Annual Report.

5. RISK MANAGEMENT DISCLOSURES (continued)

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's balance sheet, and from the investment of the Company's reserves. The exposure in this area is hedged with the Alliance & Leicester plc Treasury function using interest rate swaps and other appropriate instruments.

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

Equity risk

The Company has no material exposure to equity markets.

Liquidity risk

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

The Company is dependent on loans from its immediate parent undertaking and the level of the third party debt is not considered to be material.

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

All liabilities are repayable on demand.

6. OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of internal reports. Alliance & Leicester plc manages its operations on a divisional basis; Retail, Commercial and Treasury. As outlined in the Directors' Report the company operates as part of the Alliance & Leicester plc Group's Commercial Bank Division and therefore considers that all of its operations are managed as part of the commercial division and further segmental analysis is not necessary.

7. PROFIT FROM OPERATIONS

Directors' emoluments

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

Auditors' remuneration

Auditors' remuneration of £3,000 (2007: £3,000) was borne by the immediate parent company, Alliance & Leicester Commercial Finance plc both in the current year and preceding year.

Particulars of employees

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

8. FINANCE COSTS

	2008	2007
	£	£
Amounts payable to immediate parent undertakings	**1,200,385**	1,022,712

9. CORPORATION TAX EXPENSE

Components of Corporation tax

	2008	2007
	£	£
Current tax charge		
Current tax charge	**39,977**	14,656
Tax expense reported in income statement	**39,977**	14,656

Reconciliation of corporation tax charge to accounting profit

During 2007 the Government enacted a change in corporation tax reducing the rate from 30% to 28% with effect from April 2008. For the year ended 31 December 2008, the tax expense was pro rated using a tax rate of 30% for the period from 1 January 2008 to 31 March 2008 and a tax rate of 28% from 1 April 2008 to 31 December 2008. This resulted in an average rate of tax for the year of 28.5%.

The effective rate of tax for the year was the same as (2007: the same as) the standard rate of corporation tax in the UK average for the year ended 31 December 2008 28.5% (2007: 30%) where the Company generates substantially all its profits.

10. TRADE AND OTHER RECEIVABLES

	2008	2007
	£	£
Non current		
Loan agreement receivables	**25,284,555**	25,295,655
Current		
Loan agreement receivables	**448,573**	364,701
Total current and non-current receivables	**25,733,128**	25,660,356

11. CAPITAL

Capital was managed centrally during the year by both the Alliance & Leicester plc group and the Banco Santander S.A. group. Disclosures relating to the capital management process can be found in the Alliance & Leicester plc and Banco Santander S.A. Annual Report and Accounts. The Company does not have a non-centralised process for managing its own capital.

12. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The immediate parent company, Alliance & Leicester Commercial Finance plc, is a subsidiary of Alliance & Leicester plc which is an intermediate parent undertaking incorporated in England and Wales.

Alliance & Leicester plc is a wholly owned subsidiary of Banco Santander S.A. the controlling party and ultimate parent undertaking incorporated in Spain.

The largest Group in which the results of the Company are consolidated is that headed by Banco Santander S.A.. The consolidated accounts of this Group are available to the public and may be obtained from Santander Shareholder Department, Santander, Santander House, 100 Ludgate Hill, London EC4M 7NJ.

The smallest Group in which the results of the Company are consolidated is that headed by Alliance & Leicester plc. The consolidated accounts of this group are available to the public and may be obtained from Carlton Park, Narborough, Leicester, LE19 OAL.

12. RELATED PARTY TRANSACTIONS (continued)

Trading activities

	2008	2007
	£	£
Payable to related parties		
Current tax Group relief	**39,977**	14,656
Amounts owed to parent undertakings	**25,558,660**	25,611,502
	25,598,637	25,626,158

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

	2008	2007
	£	£
Amount owed to parent undertakings		
As at 1 January	**25,626,158**	(2)
Net movements	**(27,520)**	25,626,160
As at 31 December (note 15)	**25,598,638**	25,626,158
Interest paid to parent undertakings	**1,200,385**	1,022,712

The amounts due to parent undertakings are unsecured, repayable on demand and bear interest at market rates.

Key management compensation

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

Administration expenses

During the current year the Company paid administrative cost recharges to parent undertakings of £78,724 (2007: £67,583).

13. CASH AND CASH EQUIVALENTS

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

	2008	2007
	£	£
Cash at bank	-	-

14. SHARE CAPITAL

Authorised share capital

	2008	**2008**	2007	2007
	No	**£**	No	£
Ordinary shares of £1 each	**10,000**	**10,000**	10,000	10,000

Issued share capital

	2008	**2008**	2007	2007
	No	**£**	No	£
Issued and fully paid				
Ordinary shares of £1 each	**2**	**2**	2	2

All issued share capital is classified as equity.

15. TRADE AND OTHER PAYABLES

	2008	2007
	£	£
Payable to parent undertakings	**25,598,638**	25,626,158

16. POST BALANCE SHEET EVENTS

On 9 January 2009 the entire share capital of the intermediate parent company Alliance & Leicester plc was transferred to Abbey National plc. This had no effect on the reported results of the Company for the year ended 31 December 2008.