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COMPANY REGISTRATION NUMBER FC028362

**A & L CF (GUERNSEY) LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**A & L CF (GUERNSEY) LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**A & L CF (GUERNSEY) LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

<b>Company registration number</b>	FC028362
<b>The board of directors</b>	M W Evans C R Morley
<b>Company secretary</b>	R A Hawker
<b>Registered office</b>	Fourth Floor The Albany South Esplanade St Peter Port Guernsey GY1 4NF
<b>Statutory auditor</b>	Deloitte LLP Chartered Accountants & Statutory Auditor Birmingham United Kingdom
<b>Bankers</b>	Santander UK plc Bridle Road Bootle Merseyside L30 4GB

**A & L CF (GUERNSEY) LIMITED**  
**(COMPANY REGISTRATION NUMBER FC028362)**

**REPORT OF THE DIRECTORS**

The directors submit their Report together with the audited financial statements for the year ended 31 December 2010

**PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The principal activity of A & L CF (Guernsey) Limited, (the "Company") is that of financiers of assets for the corporate sector

The Santander UK plc group (the "Group") manages its operations on a divisional basis. The Company operates as part of the Santander UK plc group's Corporate Banking division. 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, is 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 5 to the financial statements.

**RESULTS AND DIVIDENDS**

The profit for the year attributable to equity holders of the Company was £26,954 (2009 £115,487). The directors do not recommend the payment of a final dividend (2009 £Nil).

**DIRECTORS**

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

M W Evans  
C R Morley

No director had a material interest at any time during the year in any contract of significance with the Company (2009 none).

**A & L CF (GUERNSEY) LIMITED**  
**(COMPANY REGISTRATION NUMBER FC028362)**

**REPORT OF THE DIRECTORS (continued)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies (Guernsey) Law 2008.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to

- 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 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 comply with the Companies (Guernsey) Law 2008. 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.

**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. In addition, note 5 to the financial statements includes the Company's objectives, policies and processes for managing its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk and other risks. As disclosed in note 10 to the financial statements the Company's capital is managed by the Santander UK Group.

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

On the basis of their assessment of both the Company's financial position and of the confirmations by the directors of Santander UK plc outlined above, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing this Report and financial statements.

**A & L CF (GUERNSEY) LIMITED**  
**(COMPANY REGISTRATION NUMBER FC028362)**

**REPORT OF THE DIRECTORS (continued)**

**FINANCIAL INSTRUMENTS**

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

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

The class of asset most exposed to credit risk in the Company is loan agreements. Credit risk is mitigated by charges over cash deposits held by a third party and is monitored on a revolving basis and subject to an annual or more frequent review. All customer exposure is to a single customer in the film industry and there were no lending balances in arrears at 31 December 2010 (2009: £Nil).

The Company is financed by loans from its immediate parent company, Santander Asset Finance plc (formerly Alliance & Leicester Commercial Finance plc). The funding has no fixed repayment date and is therefore repayable on demand, which creates uncertainty in respect of the future funding position of the Company. This risk is mitigated by the fact that the board of directors of Santander UK plc has confirmed that the funding will remain in place for the foreseeable future.

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

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 5 to the financial statements.

**THIRD PARTY INDEMNITIES**

Enhanced indemnities are provided to the directors of the Company by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the 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.

**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. The Company has no external creditors and is unable to quantify the practice on payment of creditors.

**AUDITOR**

Each of the directors as at the date of approval of this Report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of The Companies (Guernsey) Law 2008.

**A & L CF (GUERNSEY) LIMITED**  
**(COMPANY REGISTRATION NUMBER FC028362)**

**REPORT OF THE DIRECTORS (continued)**

**AUDITOR (continued)**

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.

By Order of the Board,



Colin Richard Morley

Director

21 March 2011

Registered Office Address Fourth Floor, The Albany, South Esplanade, St Peter Port, Guernsey, GY1 4NF

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A & L CF (GUERNSEY) LIMITED**

We have audited the financial statements of A & L CF (Guernsey) Limited, (the "Company"), for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 14. 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 Section 262 of The Companies (Guernsey) Law 2008. 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 Statement of Directors' Responsibilities, the directors are responsible for the preparation of the group 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 group financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom 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.

### **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 2010 and of its profit 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 (Guernsey) Law 2008.




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

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion

- proper accounting records have not been kept, or
- the financial statements are not in agreement with underlying accounting records, or
- we have not received all the information and explanations we required for our audit



Deloitte LLP  
Chartered Accountants  
Birmingham  
United Kingdom

22 March 2011

**A & L CF (GUERNSEY) LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2010 £	2009 £
Revenue		1,388,330	1,398,910
<b>GROSS PROFIT</b>		<u>1,388,330</u>	<u>1,398,910</u>
Administrative expenses		(37,032)	(26,387)
<b>PROFIT FROM OPERATIONS</b>	6	<u>1,351,298</u>	<u>1,372,523</u>
Finance costs	7	(1,313,862)	(1,212,125)
<b>PROFIT BEFORE TAX</b>		<u>37,436</u>	<u>160,398</u>
Tax	8	(10,482)	(44,911)
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF A &amp; L CF (GUERNSEY) LIMITED</b>		<u>26,954</u>	<u>115,487</u>

All profits during the year were generated from continuing operations

The notes on pages 13 to 26 form an integral part of the accounts

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

There is no comprehensive income or expense in either the current or previous financial year other than the profit (2009 profit) for the current and previous year as set out in the Income Statement, therefore a separate Statement of Comprehensive Income and Expense has not been presented

The notes on pages 13 to 26 form an integral part of the accounts.

**A & L CF (GUERNSEY) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

	<b>Issued capital £</b>	<b>Retained earnings £</b>	<b>Total equity £</b>
Balance at 1 January 2010	2	249,975	249,977
Profit for the year	-	26,954	26,954
Balance at 31 December 2010	<u>2</u>	<u>276,929</u>	<u>276,931</u>

	<b>Issued capital £</b>	<b>Retained earnings £</b>	<b>Total equity £</b>
Balance at 1 January 2009	2	134,488	134,490
Profit for the year	-	115,487	115,487
Balance at 31 December 2009	<u>2</u>	<u>249,975</u>	<u>249,977</u>

The notes on pages 13 to 26 form an integral part of the accounts

**A & L CF (GUERNSEY) LIMITED**  
**(COMPANY REGISTRATION NUMBER FC028362)**

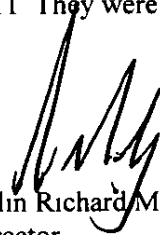
**BALANCE SHEET**

**AS AT 31 DECEMBER 2010**

	Notes	2010 £	2009 £
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Trade and other receivables	9	<u>24,970,218</u>	<u>25,184,564</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	9	<u>669,984</u>	<u>540,535</u>
<b>TOTAL ASSETS</b>		<u><b>25,640,202</b></u>	<u><b>25,725,099</b></u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	<u>(25,363,271)</u>	<u>(25,475,122)</u>
<b>TOTAL LIABILITIES</b>		<u><b>(25,363,271)</b></u>	<u><b>(25,475,122)</b></u>
<b>TOTAL NET ASSETS</b>		<u><b>276,931</b></u>	<u><b>249,977</b></u>
<b>EQUITY</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
Issued share capital	14	<u>2</u>	<u>2</u>
Retained profit		<u>276,929</u>	<u>249,975</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF A &amp; L CF (GUERNSEY) LIMITED</b>		<u><b>276,931</b></u>	<u><b>249,977</b></u>

The notes on pages 13 to 26 form an integral part of the accounts

The financial statements were approved by the board of directors and authorised for issue on 21 March 2011. They were signed on its behalf by

  
Colin Richard Morley  
Director

**A & L CF (GUERNSEY) LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

	Notes	2010 £	2009 £
Profit for the year		26,954	115,487
<b>NON-CASH ADJUSTMENTS</b>			
Decrease in trade and other receivables		84,897	8,029
		<u>84,897</u>	<u>8,029</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>111,851</b>	<b>123,516</b>
Group relief (paid)/received		(34,429)	4,934
Interest paid to parent undertakings		(1,313,862)	(1,212,125)
Management charges paid to parent undertakings		(37,032)	(26,387)
		<u>(1,385,323)</u>	<u>(1,233,578)</u>
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>		<b>(1,273,472)</b>	<b>(1,110,062)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipt of cash advances from parent undertakings		1,273,472	1,110,062
		<u>1,273,472</u>	<u>1,110,062</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents as at 1 January		-	-
<b>CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER</b>	13	<u>-</u>	<u>-</u>

The notes on pages 13 to 26 form an integral part of the accounts.

# **A & L CF (GUERNSEY) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2010**

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

The financial statements for A & L CF (Guernsey) Limited, Company registration number FC028362 (the "Company"), for the year ended 31 December 2010 were authorised for issue on 24 March 2011 and the Balance Sheet signed on the Board's behalf by Colin Richard Morley. The Company is incorporated in Guernsey and registered in England & Wales as an overseas branch. The Company's registered office is shown on page 2.

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 2010 results.

#### **2. ACCOUNTING POLICIES**

##### **Basis of preparation**

The financial statements have been prepared under the Companies Act 2006 and the historical cost convention, as modified by the revaluation of all derivative financial instruments and on the going concern basis of accounting as disclosed in the Directors' Report - Statement of Going Concern.

The functional and presentation currency of the Company is Sterling.

##### **Compliance with International Financial Reporting Standards**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB that, under European Union Regulations, are effective and available for adoption at the reporting date. The Company has complied with IFRS as issued by the IASB in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union.

##### **Recent accounting developments**

In 2010, the Company adopted the following significant new or revised standards or amendments to standards:

a) IFRS 3 'Business Combinations' – In January 2008, the IASB issued an amendment to IFRS 3 which clarifies and changes certain elements of accounting for a business combination, including the measurement and accounting for non-controlling interests, contingent consideration, step acquisitions and acquisition-related costs and also widens the scope of the standard. There are also associated amendments to IAS 27, IAS 28 and IAS 31. IFRS 3 (2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2010. Its adoption has affected the accounting for business combinations in the current year as follows:

- IFRS 3 (2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.
- IFRS 3 (2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the

**A & L CF (GUERNSEY) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

**2. ACCOUNTING POLICIES (continued)**

acquisition date only if payment of the contingent consideration was probable and it could be measured reliably, any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date, subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- Any adjustments to contingent considerations for acquisitions made prior to 1 January 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS 3 (2004) and IAS 27 (2005)
- IFRS 3 (2008) requires the application of acquisition accounting only at the point where control is achieved, for a business combination achieved in stages (step acquisition). If an acquirer has a pre-existing equity interest in an acquiree and increases its equity interest sufficiently to achieve control, it must remeasure its previously-held equity interest in the acquiree at acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Once control is achieved, all other increases and decreases in ownership interests are treated as transactions among equity holders and reported within equity. Goodwill does not arise on any increase, and no gain or loss is recognised on any decrease.
- IFRS 3 (2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.
- IFRS 3 (2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Company and the acquiree.

The adoption of IFRS 3 (2008) did not affect the Company.

b) IAS 27 'Consolidated and Separate Financial Statements' – In January 2008, the IASB issued an amendment to IAS 27, to reflect the amendment in IFRS 3. The changes in the accounting policy have been applied prospectively from 1 January 2010. The application of IAS 27 (2008) has resulted in changes in the Company's accounting policies for changes in ownership interests in subsidiaries.

- Specifically, the revised Standard has affected the Company's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate, for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.
- When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Company to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is

**A & L CF (GUERNSEY) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

**2. ACCOUNTING POLICIES (continued)**

recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

The adoption of IAS 27 (2008) did not affect the Company.

c) IAS 31 'Interest in Joint Ventures' – In January 2008, the IASB made consequential amendments to IAS 31 to extend the changes in IAS 27. The principle adopted in IAS 27 (2008) that a change in accounting basis is recognised as a disposal and re-acquisition of any retained interest at fair value is extended to IAS 31 as follows:

- IAS 31 is amended such that for a change in joint control interest in an entity, the investor remeasures at fair value any investment retained in the former jointly controlled entity, with any consequential gain or loss compared to its carrying amount under IAS 31 recognised in profit or loss.
- Any amount that has previously been recognised in other comprehensive income, and that would be reclassified to profit or loss following a disposal, is similarly reclassified to profit or loss.

The adoption of IAS 31 (2008) did not affect the Company.

**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) IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 and in October 2010, issued an amendment to IFRS 9 which introduce new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.



**A & L CF (GUERNSEY) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

**2. ACCOUNTING POLICIES (continued)**

The Company anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning on or after 1 January 2013 and that the application of the new Standard may have an 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.

b) 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.

The Company does not anticipate that these amendments to IFRS 7 will have a significant effect on the Company's disclosures regarding transfers of financial assets. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

c) IAS 24 'Related Party Transactions' – In November 2009, the IASB issued amendments to IAS 24, effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The revised standard modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (2009) do not affect the Company because the Company is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

**Principal accounting policies**

The principal accounting 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.

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

**A & L CF (GUERNSEY) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

**2. ACCOUNTING POLICIES (continued)**

**Finance income and finance costs**

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

**Taxation**

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Taxable profit differs from 'Profit before tax' as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit also includes items that are taxable or deductible that are not included in 'Profit before tax'. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by 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. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill, the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

**Cash and cash equivalents**

The Company does not hold cash or cash equivalents.

**Financial instruments**

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. ACCOUNTING POLICIES (continued)**

**Financial assets**

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

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

'Loans and advances to customers' are classed as Loans and Receivables

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

**Financial liabilities**

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

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

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

**Effective interest method**

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

**Impairment of financial assets**

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

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**2. ACCOUNTING POLICIES (continued)**

- 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.

**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 impairment losses are charged to the income statement.

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**3. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT (continued)**

**Impairment Loss Allowances**

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

**Effective interest rate calculations**

IAS 39 "Financial Instruments Recognition and Measurement" requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the effective interest rate (EIR) methodology. In order to calculate EIR, the contracted repayment profile is used. If customers repay earlier than anticipated, this will generally lead to a reduction 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, market risk, interest rate risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Santander UK Group. Santander UK Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK Group's strategic objectives.

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

**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. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements.

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**5. RISK MANAGEMENT DISCLOSURES (continued)**

**Operational risk (continued)**

The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk fora, risk committee and board of directors.

**Credit risk**

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

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

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

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

The class of financial instrument that is most exposed to credit risk in the Company is loan agreements. The net investment in loan agreements at 31 December 2010 was £25,640,202 (2009 £25,725,099).

All exposures are with a single customer in the corporate sector. The lending book of this company in the current year is wholly related to the film industry.

For the Company, 100% (2009 100%) of the balances are secured. The main types of security are charges over cash deposits held by third parties. In addition £26,456,477 (2009 £26,615,765) of other financial assets are secured by bank guarantees.

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**5. RISK MANAGEMENT DISCLOSURES (continued)**

**Arrears and impairment**

Asset quality is good with no lending balances in arrears at 31 December 2010 (2009 £Nil)

The carrying value of repossessed stock at 31 December 2010 was £Nil (2009. £Nil)

The fair value of collateral on impaired assets at 31 December 2010 was £Nil (2009 £Nil)

Interest accrued on impaired assets at 31 December 2010 was £Nil (2009 £Nil)

The portfolio is subject to regular monitoring for potential impairment under the impairment of financial assets policy set out in note 2

£Nil (2009 £Nil) of lending that would have been past due or impaired, have had their terms renegotiated

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

**Market risk**

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

**Interest rate risk**

Interest rate risk is the most significant market risk to which the Company is exposed. This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's Balance Sheet, and from the investment of the Company's reserves. Interest rate risk primarily arises in the Company's leasing trade. The exposure in this area is hedged with Santander UK plc Treasury function using fixed rate loans and other appropriate instruments.

Changes in interest rates would result in no impact on either the equity of the Company or on the profit before tax as interest is allocated on a lease agreement by lease agreement basis within the Company and all interest rate risk is borne by the ultimate UK parent company, Santander UK plc.

**Liquidity risk**

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

The Company is dependent on loans from its immediate parent company Santander Asset Finance plc. All liabilities are repayable on demand.

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**5. RISK MANAGEMENT DISCLOSURES (continued)**

**Liquidity risk (continued)**

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

**6. PROFIT FROM OPERATIONS**

**Directors' emoluments**

The directors were not remunerated for their services to the Company. Directors' emoluments are borne by the ultimate UK parent company Santander UK plc. No emoluments were paid by the Company to the directors during the year (2009 £Nil)

**Auditors' remuneration**

Auditors' remuneration of £8,200 (2009 £8,000) was borne by the ultimate UK parent company Santander UK plc in the current year and by the immediate parent company, Santander Asset Finance plc in the preceding year.

No non-audit fees were borne on the Company's behalf in either the current or preceding year.

**Particulars of employees**

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

**7. FINANCE COSTS**

	2010 £	2009 £
Amounts payable to immediate parent undertakings	1,313,862	1,212,125
	<u>1,313,862</u>	<u>1,212,125</u>

**8. TAX**

	2010 £	2009 £
<b>Current tax expense</b>		
Current tax charge	10,482	44,911
Current tax expense	<u>10,482</u>	<u>44,911</u>
Tax expense for the year	<u>10,482</u>	<u>44,911</u>

UK corporation tax is calculated at 28% (2009 28%) of the estimated assessable profits for the year.

The Finance (No 2) Act 2010, which provides for a reduction in the main rate of UK corporation tax from 28% to 27% effective from 1 April 2011, was enacted on 27 July 2010. The effect of the rate reduction was not material. The UK Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 24% by 1 April 2014.



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**8. TAX**

The tax on the Company's profit (2009 profit) before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows

	2010 £	2009 £
Profit before tax	<u>37,436</u>	<u>160,398</u>
Tax calculated at a rate of 28% (2009 28%)	<u>10,482</u>	<u>44,911</u>
Tax expense for the year	<u>10,482</u>	<u>44,911</u>

**9. TRADE AND OTHER RECEIVABLES**

	2010 £	2009 £
<b>Non current</b>		
Loan agreement receivables	<u>24,970,218</u>	<u>25,184,564</u>
	<u>24,970,218</u>	<u>25,184,564</u>
<b>Current</b>		
Loan agreement receivables	<u>669,984</u>	<u>540,535</u>
<b>Total trade receivables</b>	<u>25,640,202</u>	<u>25,725,099</u>

**10. CAPITAL**

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

**11. RELATED PARTY TRANSACTIONS**

**Parent undertaking and controlling party**

The Company's immediate parent company is Santander Asset Finance plc (formerly Alliance & Leicester Commercial Finance plc), a company 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

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. RELATED PARTY TRANSACTIONS**

**Trading activities**

**Payable to related parties**

	<b>2010</b>	2009
	<b>£</b>	£
Current tax Group relief	<b>10,482</b>	44,911
Amounts owed to parent undertakings	<b>25,352,789</b>	25,430,211
	<b><u>25,363,271</u></b>	<u>25,475,122</u>

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

	<b>2010</b>	2009
	<b>£</b>	£
<b>Amount owed to parent undertakings</b>		
As at 1 January	<b>25,475,122</b>	25,598,638
Net movements	<b>(111,851)</b>	(123,516)
As at 31 December (note 12)	<b><u>25,363,271</u></b>	<u>25,475,122</u>
<b>Interest paid to parent undertakings</b>	<b><u>1,313,862</u></b>	<u>1,212,125</u>

The amounts due to related parties are unsecured, repayable on demand and bear interest at market rates

**Key management compensation**

As detailed in note 6 the Company had no employees in either the current or preceding year and the directors are remunerated through Santander UK plc therefore no key management compensation was paid by this Company

**Administration expenses**

During the current year the Company paid administrative cost recharges to parent undertakings of £37,032 (2009 £26,387)

**12. TRADE AND OTHER PAYABLES**

	<b>2010</b>	2009
	<b>£</b>	£
Payable to related parties (note 11)	<b>25,363,271</b>	25,475,122
	<b><u>25,363,271</u></b>	<u>25,475,122</u>

The directors consider that the carrying amount of the trade and other payables approximates to their fair value

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**13. CASH AND CASH EQUIVALENTS**

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

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Cash at bank	<u>-</u>	<u>-</u>

**14. ISSUED SHARE CAPITAL**

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>No</b>	<b>£</b>	<b>No</b>	<b>£</b>
<b>Issued and fully paid</b>				
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

All issued share capital is classified as equity