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A & L CF (GUERNSEY) LIMITED

Registered in Guernsey
Company Number 43499
Foreign Company Number FC028362

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018.

Incorporation and residence

The Company is incorporated in Guernsey, Channel Islands with a branch registered in the United Kingdom (registered number FC028362).

Principal activity and review of the year

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

As part of a wider legal reorganisation under Banking Reform, Santander UK Group Holdings plc (together with its subsidiaries, the HoldCo Group) was required to separate certain retail banking activities from certain wholesale or investment banking activities by 1 January 2019. As part of the reorganisation the Company was transferred out of the ring fenced bank on 20 November 2018 to Santander Equity Investments Limited.

Results and dividends

The profit for the year after taxation amounted to £15,840 (2017: profit of £180,065).
The Directors do not recommend the payment of a final dividend (2017: £Nil).

Directors

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

AM Konter	(Resigned 23 July 2019)
S Affleck	
G Ashworth	(Resigned 28 June 2019)
DJ Layhe	(Appointed 17 September 2019)
H Reindl	(Appointed 5 August 2019)

Statement of directors' responsibilities

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and The Companies (Guernsey) Law, 2008. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Companies (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 3 to the financial statements includes the Company's objectives, policies and processes for managing its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk and other risks.

The Company is part of the Santander UK Group. The Company has net assets and is reliant on other companies in the Santander UK Group for its funding. The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Statement of going concern (continued)

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

The process for the UK leaving the EU impacts the economic, legal and regulatory environment across the financial services industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Qualifying third party indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK Group Holdings plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities were in force during the financial year and at the date of approval of the Report and Financial Statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings plc.

Independent Auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s249 of The Companies (Guernsey) Law 2008.

PricewaterhouseCoopers LLP are re-appointed as auditors in accordance with The Companies (Guernsey) Law 2008.

By Order of the Board

Alexander O'Brien
For and on behalf of
Santander Secretariat Services Limited
Secretary

19 December 2019

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

Independent auditors' report to the members of A & L CF (Guernsey) Limited

Report on the audit of the financial statements

Opinion

In our opinion, A & L CF (Guernsey) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the cash flow statement, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion.

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

Independent auditors' report to the members of A & L CF (Guernsey) Limited (continued)

Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 1, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Guernsey) Law, 2008 exception reporting

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Timothy Lawrence

Timothy Lawrence
PricewaterhouseCoopers LLP
Chartered Accountants
London
19 December 2019

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

Continuing operations

	Note	2018 £	2017 £
Interest income	4	**1,100,168**	1,161,432
Net interest income		*1,100,168*	*1,161,432*
Other income	5	-	189,354
Administrative expenses		**(22,861)**	(16,908)
Profit from operations	6	**1,077,307**	1,333,878
Finance costs	7	**(1,057,751)**	(1,110,887)
Profit before tax		**19,556**	222,991
Tax charge for the year	8	**(3,716)**	(42,926)
Profit for the year and Total Comprehensive Income of A & L CF (Guernsey) Limited		**15,840**	180,065

The profits during the year were generated from continuing operations.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2017	2	185,821	185,823
Total comprehensive income for the year	-	180,065	180,065
Balance at 31 December 2017	2	365,886	365,888

	Share capital £	**Retained earnings £**	**Total equity £**
Balance at 1 January 2018	**2**	**365,886**	**365,888**
Total comprehensive income for the year	**-**	**15,840**	**15,840**
Balance at 31 December 2018	**2**	**381,726**	**381,728**

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

BALANCE SHEET

As at 31 December

	Note	2018 £	2017 £
Assets			
Non current assets			
Financial assets at amortised cost	9	**18,329,643**	19,790,719
		18,329,643	19,790,719
Current assets			
Financial assets at amortised cost	9	**2,483,677**	2,114,834
Total assets		**20,813,320**	21,905,553
Liabilities			
Current liabilities			
Trade and other payables	12	**(20,427,876)**	(21,539,665)
Corporation tax		**(3,716)**	-
Total liabilities		**(20,431,592)**	(21,539,665)
Net assets		**381,728**	365,888
Equity			
Share capital	13	**2**	2
Retained earnings		**381,726**	365,886
Total equity attributable to equity holders of the Company		**381,728**	365,888

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

The financial statements were approved by the Board of Directors, authorised for issue and signed on its behalf by:

David Layhe
Director
19 December 2019

CASH FLOW STATEMENT

For the years ended 31 December

	2018 £	2017 £
Profit for the year after tax	**15,840**	180,065
Decrease in financial assets at amortised cost	1,088,478	965,895
Tax movements	7,471	-
Increase in accruals	5,500	-
Increase in other creditors	353	-
	1,101,802	965,895
Cash flows from operating activities	1,117,642	1,145,960
Amounts payable to immediate parent undertakings	(1,057,751)	(1,110,887)
Management charges repaid from parent undertakings	-	172,446
	(1,057,751)	(938,441)
Net cash flows generated from operating activities	59,891	207,519
Cash flows from financing activities		
Payment of cash advances to parent undertakings	(59,891)	(207,519)
Net cash used in financing activities	(59,891)	(207,519)
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

General information

The Company is a limited liability company incorporated and domiciled in Guernsey, Channel Islands. The Company is part of a European listed group whose immediate parent is Santander Equity Investments Limited and whose ultimate parent is Banco Santander SA.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and The Companies (Guernsey) Law 2008 applicable to companies reporting under IFRS. The functional and presentation currency of the Company is sterling.

Going Concern

The financial statements have been prepared on the going concern basis using the historical cost convention. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' statement of going concern set out in the Report of the Directors.

Recent accounting developments

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contracts with Customers' (IFRS 15).

IFRS 9 'Financial Instruments'

The accounting policy changes for IFRS 9, set out below, have been applied from 1 January 2018. Comparatives have not been restated. As a result of the change from IAS 39 to IFRS 9, some disclosures presented in respect of certain financial assets are not comparable because their classification may have changed between the two standards. This means that some IFRS 9 disclosures are not directly comparable and some disclosures that relate to information presented on an IAS 39 basis are no longer relevant in the current period.
The application of IFRS 9 had no material impact on the Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers'

The application of IFRS 15 had no material impact on the Company as there were no significant changes in the recognition of in scope income.

Future accounting developments

At 31 December 2018, the Company had 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:

- IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as *operating leases or finance leases and to account for those two types of leases differently. The application of IFRS 16 is not expected to* have any impact on the company.

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 contractual life of those agreements.

Interest income and finance costs

Income on financial assets that are classified as financial assets at amortised cost 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Interest income and finance costs (continued)

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 and interest expense on liabilities classified at amortised cost are recognised in the income statement.

Taxation

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the year in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Cash and cash equivalents

The Company does not hold cash or cash equivalents.

Financial Instruments

Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost.

1) Classification and subsequent measurement

From 1 January 2018, the Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement category of amortised cost.

The classification and measurement requirements for financial asset debt instruments and financial liabilities are set out below.

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model
The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets: debt instruments (continued)

Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. Based on these factors, the Company classifies its debt instruments into the measurement category of amortised cost.

The Company's debt instruments consist of the secured loan portfolio which is reflected under 'Financial assets at amortised cost' in the Balance Sheet. The carrying amount of these assets is adjusted by any ECL recognised.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Financial liabilities

The Company's financial liabilities consist of 'Trade and other payables' which are held at amortised cost. Finance costs are charged to the Statement of Comprehensive Income using the effective interest rate method and reflected under 'Finance costs'.

2) Impairment of financial assets

Expected credit losses are recognised on all financial assets at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For more on how ECL is calculated see the Credit risk section in Note 3.

i) Write-off

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. The write-offs are charged against previously established provisions for impairment.

3) Derecognition

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

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Financial Statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the Financial Statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgements are considered important to the portrayal of the Company's financial condition:

Effective interest rate calculations

IFRS 9 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the Effective Interest Rate (EIR) methodology. In order to calculate EIR, the contractual repayment profile is used. If customers repay earlier than anticipated, this will generally lead to an increase in the balance sheet carrying value and a gain in the income statement.

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

Credit impairment losses

The ECL impairment methodology requires management to make a number of judgements, assumptions and accounting estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

3. FINANCIAL RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are credit risk, market risk, interest rate risk, liquidity risk and operational 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 Group Board to the Chief Executive Officer and from him to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK Group Holdings plc Annual Report which does not form part of this Report.

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.

Credit risk management

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.

The Introduction of IFRS 9

IFRS 9 replaced IAS 39 on 1 January 2018. IFRS 9 introduced a new impairment methodology and rules around classification and measurement of financial assets.

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL More details can be found in the Annual Report of the UK parent company Santander UK Group Holdings plc. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see Note 1 to the Financial Statements.

3. FINANCIAL RISK MANAGEMENT (continued)

Maximum exposure to credit risk

The table below shows the Company's maximum exposure to credit risk. The class of financial instruments that are most exposed to credit risk are finance agreements, comprising loans and advances to customers.

	Balance sheet asset		
	Gross amounts	Loss allowances	Net exposure
2018	£	£	£
Financial assets at amortised cost:			
Loans and advances to customers	20,813,320	-	20,813,320
Total financial assets at amortised cost	20,813,320	-	20,813,320

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% (2017: 100%) of the balances are secured. Security comprises of cash held on deposit by Santander UK plc, a fellow group company. The credit risk associated to the deposit is insignificant and as a result, the ECL is immaterial.

The amounts held on deposit as cash, equal the amounts outstanding under the loans.

Total loan agreement balances are in the table below:

	2018	2017
	£	£
Financial instruments - Loans and advances to customers	20,813,320	21,901,797
Total financial assets at amortised cost	20,813,320	21,901,797

Arrears and impairment

Asset quality is good with no lending balances in arrears at 31 December 2018 (2017: £Nil).

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 Group Holdings plc Annual Report which does not form part of this Report.

Interest rate risk

Interest rate risk is the risk of an adverse change in profits as a result of changes to interest rates. The interest earned on the Company's interest bearing assets and the interest payable on its interest bearing liabilities, in unison significantly reduces the extent to which the Company is exposed to interest rate risk. As a result the Company is not exposed to any significant concentration of interest rate risk.

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 Equity Investments Limited. All liabilities are repayable on demand.

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

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. Further information can be found in the Santander UK Group Holdings plc Annual Report which does not form part of this Report.

NOTES TO THE FINANCIAL STATEMENTS

4. INTEREST INCOME

	2018	2017
	£	£
Interest income	1,100,168	1,161,432
	1,100,168	1,161,432

Contained within revenue is £30,209 (2017: £30,410), representing the spread of upfront arrangement fees over the contractual life of the financing arrangements, using the effective interest rate.

5. OTHER INCOME

	2018	2017
	£	£
Recharge of management fees from immediate parent undertaking	-	189,354
	-	189,354

6. PROFIT FROM OPERATIONS

Directors' emoluments

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the UK parent company Santander UK Group Holdings plc. No emoluments were paid by the Company to the directors during the year (2017: £Nil).

Auditors' remuneration

Auditors' remuneration was £5,500 (2017: £5,500). For the current year, the cost was borne by the Company. For the previous year, the cost was borne by the intermediate UK parent company Santander UK plc.

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

	2018	2017
	£	£
Interest payable to immediate parent undertaking	1,057,751	1,110,887
	1,057,751	1,110,887

8. TAX CHARGE FOR THE YEAR

	2018	2017
	£	£
Current tax:		
UK Corporation tax on profit for the year	3,716	42,926
Total current tax	3,716	42,926
Tax charge on profit for the year	3,716	42,926

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profits for the year.

The Finance Act 2016 introduced a further reduction in the corporation tax rate to 17% from 2020.

NOTES TO THE FINANCIAL STATEMENTS

8. TAX CHARGE FOR THE YEAR (continued)

The tax on the Company's profit before tax is the same as (2017: is the same as) the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2018	2017
	£	£
Profit before tax	19,556	222,991
Tax calculated at a rate of 19.00% (2017: 19.25%)	3,716	42,926
Total charge for the year	3,716	42,926

9. FINANCIAL ASSETS HELD AT AMORTISED COST

	2018	2017
	£	£
Non current		
Financial assets at amortised cost	18,329,643	19,790,719
Current		
Financial assets at amortised cost	2,483,677	2,111,079
Financial assets at amortised cost – Amounts due from group companies - group relief	-	3,755
Total financial assets at amortised cost	20,813,320	21,905,553

None of the financial assets are past due and none are individually determined to be impaired as at 31 December 2018 (2017: none).

The maturity of financial assets at amortised cost is set out below:

	2018	2017
	£	£
Due:		
Between 3 – 6 months	2,483,677	2,111,079
Between 1 – 2 years	2,760,793	2,361,649
Between 2 – 3 years	3,058,491	2,625,150
Between 3 – 5 years	3,172,744	5,925,082
Greater than 5 years	9,337,615	8,878,838
Total financial assets at amortised cost	20,813,320	21,901,798

10. CAPITAL MANAGEMENT AND RESOURCES

The Company's UK parent, Santander UK Group Holdings plc (the Santander UK Group), 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. Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process in the Company for managing its own capital. The Company is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing, including deferred consideration, have been paid.
Disclosures relating to the Santander UK Group's capital management can be found in the Santander UK Group Holdings plc annual report and financial statements.

Capital held by the Company and managed centrally as part of the Santander UK Group, comprises share capital and reserves which can be found in the Balance Sheet on page 7. The Company's capital is not externally regulated.

11. RELATED PARTY TRANSACTIONS

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 Group Holdings plc. Therefore no key management compensation was paid by this Company. There were no other related party transactions with key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS (continued)

Particulars of transactions with related parties, and the balances outstanding at the year end, are disclosed in the tables below:

	Interest expense	
	2018	2017
	£	£
Santander Equity Investments Limited	5,035	-
Santander Asset Finance plc – interest	1,052,716	1,110,887
	1,057,751	1,110,887

	Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	**2018**	2017
	£	£	£	£
Abbey National Treasury Services plc - Group relief	-	3,755	-	-
Santander Equity Investments Limited	-	-	20,422,023	-
Santander Asset Finance plc	-	-	-	21,539,665
Other group companies	-	3,755	20,422,023	21,539,665

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

12. TRADE AND OTHER PAYABLES

	2018	2017
	£	£
Payable to related parties	**20,422,023**	21,539,665
Other creditors	**353**	-
Accrued expenses	**5,500**	-
	20,427,876	21,539,665

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

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

13. SHARE CAPITAL

	2018	**2018**	2017	2017
	No	**£**	No	£
Issued and fully paid				
Ordinary shares of £1 each	2	2	2	2

All issued share capital is classified as equity.

14. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company up to 20 November 2018 was Santander Asset Finance plc, a company registered in England and Wales. From 20 November the Company's immediate parent company was Santander Equity Investments Limited, a *company registered in England and Wales and a wholly owned subsidiary of Santander UK Group Holdings plc.*

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