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 2016

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

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.

Results and dividends

The loss for the year on ordinary activities after taxation amounted to £135,372 (2015: £36,699). The Directors do not recommend the payment of a final dividend (2015: £Nil).

Directors

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

M Evans	(resigned 24 October 2017)
AM Konter	(appointed 24 October 2017)
C Morley	(resigned 30 June 2016)
A Mussert	(resigned 24 October 2017)
S Affleck	(appointed 30 September 2016)
G Ashworth	(appointed 8 November 2017)

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' Report 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 period. 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 International Financial Reporting Standards (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 Group companies 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 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 intermediate parent Santander UK plc to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Santander UK plc to continue as a going concern or its ability to continue with the current banking arrangements.

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.

Qualifying 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 Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

REPORT OF THE DIRECTORS (CONTINUED)

Independent Auditors

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

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

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

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

By Order of the Board,

For and on behalf of
Santander Secretariat Services Limited
Secretary

22 December 2017

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

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matter

In our opinion, the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

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

Responsibilities for the financial statements and the audit *(continued)*

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Lawrence

Timothy Lawrence
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
London
14 February 2018

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Note	2016 £	2015 £
Revenue	4	1,198,391	1,210,117
GROSS PROFIT		1,198,391	1,210,117
Administrative expenses		(189,354)	(62,543)
PROFIT FROM OPERATIONS	5	1,009,037	1,147,574
Finance costs	6	(1,178,252)	(1,193,591)
LOSS BEFORE TAX		(169,215)	(46,017)
Tax	7	33,843	9,318
LOSS FOR THE YEAR		(135,372)	(36,699)

All losses during the year were generated from continuing operations.

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

There is no comprehensive income or expense in either the current or previous financial year other than the loss (2015: loss) for the current and previous year as set out above.

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 2015	2	357,892	357,894
Loss for the year	-	(36,699)	(36,699)
Balance at 31 December 2015	2	321,193	321,195

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2016	2	321,193	321,195
Loss for the year	-	(135,372)	(135,372)
Balance at 31 December 2016	2	185,821	185,823

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

BALANCE SHEET

As at 31 December

	Note	2016 £	2015 £
ASSETS			
NON CURRENT ASSETS			
Trade and other receivables	8	21,021,015	22,056,031
CURRENT ASSETS			
Trade and other receivables	8	1,850,432	1,573,278
TOTAL ASSETS		22,871,447	23,629,309
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	(22,685,624)	(23,308,114)
TOTAL LIABLITIES		(22,685,624)	(23,308,114)
TOTAL NET ASSETS		185,823	321,195
EQUITY			
ISSUED CAPITAL AND RESERVES			
Share capital	12	2	2
Retained earnings		185,821	321,193
TOTAL EQUITY		185,823	321,195

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:

A Konter
Director
22December 2017

CASH FLOW STATEMENT

For the years ended 31 December

	2016 £	2015 £
Loss for the year after tax	**(135,372)**	(36,699)
NON-CASH ADJUSTMENTS		
Decrease in trade and other receivables	791,705	654,880
Increase in Group relief receivable	(33,843)	(9,318)
	757,862	645,562
CASH FLOWS FROM OPERATING ACTIVITIES	622,490	608,863
Interest paid to parent undertakings	(1,178,252)	(1,193,591)
Management charges paid to parent undertakings	(189,354)	(62,543)
	(1,367,606)	(1,256,134)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(745,116)	(647,271)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of cash advances from parent undertakings	745,116	647,271
NET CASH GENERATED FROM FINANCING ACTIVITIES	745,116	647,271
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents at start 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 and registered in Guernsey and England & Wales as an overseas branch. The Company is part of a European listed group 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 Directors' Report.

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 15 'Revenue from Contracts with Customers' (IFRS 15) - In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. It is expected that a significant proportion of the Santander UK group's revenue will be outside the scope of IFRS 15. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 15 on these financial statements.

b) IFRS 9 'Financial Instruments' (IFRS 9) - In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 sets out the requirements for recognition and measurement of financial instruments. The main new developments of the standard are discussed below.

Classification and measurement of financial assets and financial liabilities: Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. For many financial assets, the classification and measurement outcomes will be similar to IAS 39. However, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at fair value either through profit or loss or, in certain circumstances, an irrevocable election may be made to present fair value movements in other comprehensive income. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Impairment: IFRS 9 introduces fundamental changes to the impairment of financial assets measured at amortised cost or at fair value through other comprehensive income, lease receivables and certain commitments to extend credit and financial guarantee contracts. It is no longer necessary for losses to be incurred before credit losses are recognised. Instead, under IFRS 9, an entity always accounts for expected credit losses (ECLs), and any changes in those ECLs. The ECL approach must reflect both current and forecast changes in macroeconomic data over a horizon that extends from 12 months to the remaining life of the asset if a borrower's credit risk is deemed to have deteriorated significantly at the reporting date compared to the origination date. The estimate of ECLs should reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information at the reporting date. Similar to the current incurred credit loss provisioning approach, management will exercise judgement as to whether additional adjustments are required in order to adequately reflect possible events or current conditions that could affect credit risk.

For financial assets, an ECL is the current value of the difference between the contractual cash flows owed to the entity according to the contract and the cash flows which the entity expects to receive. For undrawn loan commitments, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive if the loan is drawn.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(continued)*

Future accounting developments (continued)

An assessment of each facilities' credit risk profile will determine whether they are to be allocated to one of three stages:

- Stage 1: when it is deemed there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12-month ECL - i.e. the proportion of lifetime expected losses resulting from possible default events within a the next 12-months - will be applied;
- Stage 2: when it is deemed there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL - i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility - will be applied; and
- Stage 3: when the facility is considered credit impaired, a loss allowance equal to the lifetime ECL will be applied. Similar to incurred losses under IAS 39, objective evidence of credit impairment is required.

The assessment of whether a significant increase in credit risk has occurred since initial recognition involves the application of both quantitative measures and qualitative factors, requires management judgement and is a key aspect of the IFRS 9 methodology.

Hedge accounting: The general hedge accounting requirements align more closely with risk management practices and establish a more principle-based approach thereby allowing hedge accounting to be applied to a wider variety of hedging instruments and risks. Macro hedge accounting is being dealt with as a separate project. Until such time as that project is complete, and to remove any potential conflict between any existing macro hedge accounting undertaken under IAS 39 and the new general hedge accounting requirements of IFRS 9, entities can choose to continue to apply the existing hedge accounting requirements in IAS 39. Based on the analysis performed to date, the Company expects to continue IAS 39 hedge accounting. No changes are currently being implemented to hedge accounting policies and practices.

Transition: IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application. There is no requirement to restate comparative information. The Company is assessing the likely impacts of the new financial asset classification & measurement and impairment requirements. Upon the satisfactory completion of this work, including formal testing of the ECL models during 2017, the Company will quantify the indicative impact when that information is known or reasonably estimable, and by no later than the end of 2017. It is not yet practicable to quantify the effect of IFRS 9 in these Financial Statements.

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.

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.

Income taxes

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(continued)*

Financial assets

The Company classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market 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 (EIR) 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 loan 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:

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.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Some asset and liability amounts reported in the financial statements 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.

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(continued)*

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. Total loan agreements as at 31 December 2016 were £22,824,766 (2015: £23,616,471).

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% (2015: 100%) of the balances are secured. The main types of security on these assets are charges over cash deposits held by third parties. In addition £22,824,766 (2015 £23,616,471) of other financial assets are secured by bank guarantees.

Arrears and impairment

Asset quality is good with no lending balances in arrears at 31 December 2016 (2015: £Nil).

The carrying value of repossessed stock at 31 December 2016 was £Nil (2015: £Nil).

The fair value of collateral on impaired assets at 31 December 2016 was £Nil (2015: £Nil).

Interest accrued on impaired assets at 31 December 2016 was £Nil (2015: £Nil).

The portfolio is subject to regular monitoring for potential impairment under the impairment of financial assets policy set out in note 1.

£Nil (2015: £Nil) of lending that would have been past due or impaired, have had their terms renegotiated.

Collective impairment loss allowances were £Nil (2015: £Nil).

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 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.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(continued)*

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.

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.

4. REVENUE

	2016	2015
	£	£
Revenue	1,198,391	1,210,117
	1,198,391	1,210,117

Contained within revenue is £28,138 (2015: 28,633), representing the spread of upfront arrangement fees over the contractual life of the financing arrangements, using the effective interest rate.

5. 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 intermediate UK parent company Santander UK plc. No emoluments were paid by the Company to the directors during the year (2015: £Nil).

Auditors' remuneration

Auditors' remuneration of £5,000 (2015: £5,227) was borne by the intermediate UK parent company Santander UK plc in the current year and 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.

6. FINANCE COSTS

	2016	2015
	£	£
Amounts payable to immediate parent undertakings	1,178,252	1,193,591
	1,178,252	1,193,591

NOTES TO THE FINANCIAL STATEMENTS

7. TAX

	2016 £	2015 £
Current tax:		
UK Corporation tax on loss for the year	(33,843)	(9,318)
Total current tax	(33,843)	(9,318)
Tax credit on loss for the year	(33,843)	(9,318)

UK corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 21% to 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 18% from 1 April 2020 was enacted on 18 November 2015.

The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the corporation tax rate to 17% from 2020.

The tax on the Company's loss before tax using the basic tax rate of the Company is as follows:

	2016 £	2015 £
Loss before tax	(169,215)	(46,017)
Tax calculated at a rate of 20% (2015: 20.25%)	(33,843)	(9,318)
Total tax credit for the year	(33,843)	(9,318)

8. TRADE AND OTHER RECEIVABLES

	2016 £	2015 £
Non current		
Loans and receivables	21,021,015	22,056,031
Current		
Loans and receivables	1,803,751	1,560,440
Receivable from related parties - group relief	46,681	12,838
Total trade receivables	22,871,447	23,629,309

None of the financial assets are past due and none are individually determined to be impaired as at 31 December 2016 (2015: none).

The maturity of loans and receivables is set out below:

	2016 £	2015 £
Due:		
Between 3-6 months	1,803,751	1,560,440
Between 1 - 2 years	2,026,181	1,743,001
Between 2 - 3 years	2,266,675	1,957,939
Between 3 - 5 years	5,310,846	4,625,054
Greater than 5 years	11,417,313	13,730,037
Total loans and receivables	22,824,766	23,616,471

NOTES TO THE FINANCIAL STATEMENTS

9. CAPITAL MANAGEMENT AND RESOURCES

The Company's intermediate 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 Company's capital management can be found in the Santander UK Annual Report and Financial Statements.

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

Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital. The Company is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing, including deferred consideration, have been paid.

10. RELATED PARTY TRANSACTIONS

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

	Interest expense	
	2016	2015
	£m	£m
Santander Asset Finance plc – interest	**1,178,252**	1,193,591
Santander Asset Finance plc – administration expenses	**189,354**	62,543
	1,367,606	1,256,134

	Amounts owed by related parties		Amounts owed to related parties	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Abbey National Treasury Services plc - group relief	**46,681**	12,838	**-**	-
Santander Asset Finance plc	**-**	-	**22,685,624**	23,308,114
Other group companies	**46,681**	12,838	**22,685,624**	23,308,114

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

Key management compensation

As detailed in note 4 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.

11. TRADE AND OTHER PAYABLES

	2016	2015
	£	£
Payable to related parties	**22,685,624**	23,308,114
	22,685,624	23,308,114

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.

None of the financial liabilities are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

12. SHARE CAPITAL

	2016 No	2016 £	2015 No	2015 £
Issued and fully paid				
Ordinary shares of £1 each	2	2	2	2

All issued share capital is classified as equity.

13. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Santander Asset Finance plc, a company registered in England and Wales.

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 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.

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