

A & L CF JUNE (3) LIMITED

**Registered in England & Wales
Company Number 02345838**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2020**



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2020.

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemptions under Sections 415A (1) & (2) of the Companies Act 2006. The Company is also exempt from preparing a Strategic Report in accordance with Section 414B of the Companies Act 2006.

Principal activities and review of the year

The principal activity of A & L CF June (3) Limited (the Company) is that of a lessor and financier of one asset to one corporate customer within the shipping industry.

The Company recognises lease income based on a pattern reflecting a constant periodic rate of return (IRR) on the net investment in the lease. Under the terms of the lease agreement, the Company's returns are determined on a post-tax basis.

During the year, the Company generated a profit before tax of £2,574,915 (2019: loss of £1,205,892).

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

A lease in which the Company is the lessor is currently under review by HMRC in connection with claims for tax allowances. Under the terms of the lease agreement, the Company is fully indemnified in all material respects by the lessee for any liability arising from the disallowance of tax allowances plus accrued interest, which could be up to £43.5m. Whilst legal opinions have been obtained to support the Company's position, the matter remains uncertain pending formal resolution with HMRC and any subsequent litigation. In 2020, as required under the terms of the lease these matters have moved to formal litigation and it is currently anticipated that hearings will be held at the First Tier Tax Tribunal in 2021.

Results and dividends

The profit for the year amounted to £213,636 (2019: loss £998,404). The Directors do not recommend the payment of a final dividend (2019: nil).

Directors

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

SD Affleck	
H Reindl	(appointed 5 August 2019)
DJ Layhe	(appointed 17 September 2019)
A Konter	(resigned 23 July 2019)

Statement of Directors' responsibilities in respect of the financial statements

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

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. 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

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 Act 2006.

REPORT OF THE DIRECTORS *(continued)*

Statement of going concern

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 3, 4 and 10 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk, market risk, liquidity risk and other risks.

The Company is part of the Santander UK Group. The Company is reliant on other companies in the Santander UK Group for a significant proportion of 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 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 and group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Santander UK Group Holdings plc, the Company's Directors have a reasonable expectation that the Company will be able 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.

Brexit and LIBOR transition

The process of the UK leaving the EU impacts the economic, legal and regulatory environment for the Group's customers across the financial services industry. In addition, the use of LIBOR, which is expected to cease in December 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Company's contract with its one single customer is pegged to LIBOR rates. The Santander UK group has put in place appropriate plans to address the potential risks and has established the IBOR steering group. This group is responsible for driving the project's strategic direction and take the required decisions to ensure a correct transition across all Santander businesses and entities, including the Company. The IBOR steering group operates in accordance with the methodology defined by the Group's Execution Project Office and is chaired by the project's global sponsor, the global head of SCIB, with the additional support of eight senior executives.

The Company is not anticipated to be impacted by Brexit based on the Company's single customer.

COVID 19

The Company is monitoring the impact of the COVID-19 outbreak on the financial performance of the Company. The Company is part of the Santander UK Group, which has implemented precautionary measures and protocols based on recommendations from official health authorities, such as the World Health Organization (WHO) and Public Health England. Further such measures may need to be implemented in future, as the situation is complex and is still changing rapidly.

Given the fluidity of the situation, the Company cannot quantify the magnitude and duration of the impact of the COVID-19 outbreak at this time, although there may well be a negative impact on the 2021 financial results. However, the Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date. The Company will continue to monitor and assess its business operations.

Financial Risk Management

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

The financial risk management objectives and policies of the group and the exposure of the group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the Group financial statements.

The class of asset most exposed to credit risk in the Company is the finance lease asset. Credit risk is mitigated by security over the borrower's asset and is monitored on a revolving basis and subject to an annual or more frequent review.

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

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 4 to the financial statements.

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 remained in force throughout the year and as at the date of this Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings 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 Directors are aware, there is no relevant audit information of which the Company's auditors are unaware the Directors have taken all the steps that he/she ought to have taken as Directors to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP are expressly re-appointed as auditors under section 485 of the Companies Act 2006.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'S. Affleck', with a stylized flourish at the end.

Stephen Affleck
Director

18 December 2020
Registered Office Address: 2 Triton Square, Regent's Place, London, NW1 3AN

Independent auditors' report to the members of A & L CF June (3) Limited

Report on the audit of the financial statements

Opinion

In our opinion, A&L CF June (3) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 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 Act 2006.

We have audited the financial statements, included within the Annual Reports and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 30 June 2020; the statement of comprehensive income, cash flow statement, 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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 or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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.

With respect to the Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of A & L CF June (3) Limited

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 30 June 2020 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 Directors' responsibilities in respect of the financial statements 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 Chapter 3 of Part 16 of the Companies Act 2006 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 Act 2006 exception reporting

Under the Companies Act 2006 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
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; take advantage of the small companies exemption in preparing the Report of the Directors; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Steven Linnegar

Steven Linnegar (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 December 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June

	Note	2020 £	2019 £
Revenue		1,737,014	543,543
GROSS PROFIT		1,737,014	543,543
Administrative expenses		(133,237)	(501,113)
Net impairment release/(charge)	4	1,400,000	(809,500)
PROFIT/ (LOSS) FROM OPERATIONS	5	3,003,777	(767,070)
Finance costs	6	(428,862)	(438,822)
PROFIT/ (LOSS) BEFORE TAX		2,574,915	(1,205,892)
Tax (charge)/credit	7	(2,361,279)	207,488
PROFIT/ (LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/ (EXPENSE) OF A & L CF JUNE (3) LIMITED		213,636	(998,404)

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June

	Issued capital £	Retained earnings £	Total equity £
Balance at 30 June 2018	100	7,027,254	7,027,354
Adoption of IFRS 9	-	(490,115)	(490,115)
Balance at 1 July 2018	100	6,537,139	6,537,239
Loss for the year and total comprehensive expense	-	(998,404)	(998,404)
Balance at 30 June 2019	100	5,538,735	5,538,835
Balance at 1 July 2019	100	5,538,735	5,538,835
Profit for the year and total comprehensive income	-	213,636	213,636
Balance at 30 June 2020	100	5,752,371	5,752,471

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

BALANCE SHEET

As at 30 June

	Note	2020 £	2019 £
ASSETS			
NON CURRENT ASSETS			
Financial assets at amortised cost	8	90,833,016	90,305,677
CURRENT ASSETS			
Financial assets at amortised cost	8	6,354,870	6,251,166
Amounts owed by related parties	11	1,581,267	2,106,432
		7,936,137	8,357,598
TOTAL ASSETS		98,769,153	98,663,275
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	(75,268,171)	(77,212,044)
NON CURRENT LIABILITIES			
Deferred tax liabilities	13	(17,748,511)	(15,912,396)
TOTAL LIABILITIES		(93,016,682)	(93,124,440)
TOTAL NET ASSETS		5,752,471	5,538,835
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	14	100	100
Retained earnings		5,752,371	5,538,735
TOTAL EQUITY		5,752,471	5,538,835

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

These financial statements have been prepared in accordance with the special provisions relating to the small companies regime and the Directors make this statement in accordance with section 414(3) of the Companies Act 2006.

The financial statements on pages 6 to 22 were approved by the Board of Directors on xxx xxx and signed on its behalf by:



Stephen Affleck
Director
18 December 2020

CASH FLOW STATEMENT

For the year ended 30 June

	2020 £	2019 £
Total profit/ (loss) for the financial year	213,636	(998,404)
NON-CASH ADJUSTMENTS		
Fair value adjustments arising from IFRS 9	-	(490,115)
(Increase)/ decrease in financial assets at amortised cost	(631,043)	3,142,243
Decrease/ (increase) in group relief receivable	525,165	(23,627)
Increase/ (decrease) in deferred tax liability	1,836,115	(284,246)
Management charges paid to parent undertakings	(133,237)	(501,113)
	<u>1,597,000</u>	<u>1,843,142</u>
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	<u>1,810,636</u>	<u>844,738</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan repayments made to related parties	(1,381,774)	(405,916)
Interest paid to parent undertakings	(428,862)	(438,822)
CASH FLOWS USED IN FINANCING ACTIVITIES	<u>(1,810,636)</u>	<u>(844,738)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents at start of year	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>-</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES

The functional and presentation currency of the Company is Sterling.

General information

The Company is a private company with liability limited by shares. The Company is domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA. The registered office address of the Company is 2 Triton Square, Regent's Place, London NW1 3AN.

Basis of preparation

The financial statements of the Company 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 Act 2006 applicable to companies reporting under IFRS.

Going concern

The financial statements have been prepared under the historical cost convention and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

Recent accounting developments

On 1 July 2019, the Company adopted IFRS 16 "Leases" (IFRS 16). IFRS 16 substantially carries forward the lessor accounting requirements from the previous leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance lease and to account for those two types of leases differently. The accounting policy has not led to material effect to the Company's financial statements or its reserves, since lessor accounting is not impacted by the new standard.

Future accounting developments

At 30 June 2020, for the Company, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business. 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.

The Company recognises lease income based on a pattern reflecting a constant periodic rate of return (IRR) on the net investment in the lease. Any changes in variable assumptions under the terms of the lease result in a change to the IRR. The effects of any changes from applying the revised IRR to income recognised in respect of the lease in prior years is recognised immediately within revenue in the year in which the IRR changes without restating prior period comparatives.

Leases

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

If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the lower of the estimated useful life and the life of the lease. The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES *(continued)*

Income taxes including deferred taxes

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Taxable profit differs from 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 assets and 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 statement of comprehensive income, 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.

Financial instruments

a) 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. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement

The Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

At the balance sheet date, financial assets were measured at amortized cost and Fair Value through Other Comprehensive Income.

All financial liabilities are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES (*continued*)

c) 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 and government and corporate bonds. 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. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. 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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

- **Amortised cost** – 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. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
- **FVOCI** – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Finance income'. Interest income from these financial assets is included in 'Other gains/ losses' using the effective interest rate method.
- **FVTPL** – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other gains/losses' in the period in which it arises.

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.

Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. 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.

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

For more on how ECL is calculated see the Credit risk section in Note 4.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. ACCOUNTING POLICIES *(continued)*

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 contractual life of the lease agreements. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the contractual 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 financial assets at amortised cost have become impaired. Evidence of impairment may include indications that the borrower or group of borrowers has defaulted, is 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 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 financial re-organisation;
- 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.

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 financial assets 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.

Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the likelihood of a transfer of economic benefit is considered to be remote.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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.

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.

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the 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.

Key areas of judgement in accounting estimates

The key judgements made by management in applying the ECL impairment methodology are set out below:

- Definition of default
- Forward-looking information
- Probability weights
- SICR
- Post model adjustments.

For more on each of these key judgements, see the 'Credit risk – Santander UK group level – credit risk management' section of the Risk review.

Sensitivity of ECL allowance

The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios and, depending on the weights chosen, this could have a material effect on the ECL allowance. Had management used different assumptions on probability weights, a larger or smaller ECL charge would arise that could have a material impact on the Company's reported ECL allowance and profit before tax. Sensitivities to these assumptions are set out in the Annual Report of the Company's immediate parent company, Santander UK plc.

3. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk, interest rate risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Santander UK Group. Santander UK Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK Group's strategic objectives.

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. RISK MANAGEMENT DISCLOSURES

Operational risk

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

Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Company as and when they fall due. The credit quality of customer assets is mitigated by the credit approval process in place. Credit risk is mitigated by security taken over the borrower's asset. 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.

In accordance with group policy, the Company manages its portfolios across the credit risk lifecycle, from drawing up risk strategy, plans, budgets and limits to making sure the actual risk profile of the Company's exposures stays in line with plans and the Company's appetite to risk.

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 parent company Santander UK 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.
Non-Performing Loans (NPLs)	The Company uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Company doubt they can keep up with their payments. There are differences between NPL and Stage 3, details of which can be found in the Annual Report of the parent company Santander UK plc.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Significant Increase in Credit Risk (SICR)

Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12 month ECL. We assess each facility's credit risk profile and use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR to determine which of three stages to allocate them to:

- Stage 1: when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- Stage 2: when there has been a SICR since initial recognition, but no credit impairment has materialised. We apply 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
- Stage 3: when the exposure is considered credit impaired using default criteria set out below. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

Criteria applicable to stage 2

Quantitative criteria

We use quantitative criteria to identify where an exposure has increased in credit risk. The quantitative criteria we apply are based on whether any increase in the lifetime probability of default ("PD") since the recognition date exceeds a set threshold both in relative and absolute terms. We base the value anticipated from the initial recognition on a similar set of assumptions and data to the ones we used at the reporting date, adjusted to reflect the account surviving to that date. The comparison uses either an annualised lifetime PD, where the lifetime PD is divided by the forecast period, or the absolute change in lifetime PD since initial recognition.

For each portfolio, the quantitative criteria is set at 400 bps and we use the comparison of lifetime PDs to determine Stage allocation.

We also apply a relative threshold of 100% (doubling the PD) across all portfolios.

Qualitative criteria

We also use qualitative criteria to identify where an exposure has increased in credit risk, independent of any changes in PD. For each portfolio, the qualitative criteria used are: in forbearance, watch-list - proactive management of NPL in past 12 months and default at proxy origination.

Criteria applicable to stage 3

Definition of default (Credit impaired)

We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than 90 days past due (DPD), or if we have data to make us doubt customers can keep up with their payments i.e. they are unlikely to pay. The data includes where:

- They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan
- Something happens that makes them less likely to be able to pay – such as they lose an important client or contract
- They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
- Their loan is unlikely to be refinanced or repaid in full on maturity.

Backstop criteria

We classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. We do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 days past due) relating to either a SICR or default.

Multiple economic scenarios and probability weights

For all our portfolios, we use five forward-looking economic scenarios. They consist of a central base case, two upside scenarios and two downside scenarios. We use five scenarios to reflect a wide range of possible outcomes in the performance of the UK economy. For example, the Downside 2 scenario reflects the possibility of a recession occurring. We believe that our five scenarios, in particular Downside 1 and Downside 2, reflect the range of outcomes that Brexit may take, including a deal with a transition period or a no-deal Brexit. Our scenarios are also in line with a number of scenarios that have been produced by, for example, the Bank of England and its disruptive scenario, and other economic forecasters no deal scenarios. As such our scenarios and weights reflect the range of possible outcomes that the UK may face in the remainder of 2020.

Further information on quantitative and qualitative criteria and multiple economic scenarios is set out in the Annual Report of the Company's immediate parent company, Santander UK plc.

Sensitivity of ECL allowance

The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios and, depending on the weights chosen, this could have a material effect on the ECL allowance. Had management used different assumptions on probability weights, a larger or smaller ECL charge would have arisen and that could have had a material impact on the Company's reported ECL allowance and profit before tax. Sensitivities to these assumptions are set out in the Annual Report of the Company's immediate parent company, Santander UK plc.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Measuring ECL

For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly ECL as the discounted value for the relevant forecast month of the product of the following factors:

- Survival rate (SR): The probability that the exposure has not closed or defaulted since the reporting date.
- Probability of Default (PD): The likelihood of a borrower defaulting in the following month, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
- Exposure at Default (EAD): The amount we expect to be owed if a default event was to occur. We determine EAD for each month of the forecast period by the expected payment profile, which varies by product type. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. We vary these assumptions by product type and base them on analysis of recent default data.
- Loss Given Default (LGD): Our expected loss if a default event were to occur. We express it as a percentage and calculate it as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs. We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current PD and loan to value. PD and SR are not required for accounts in default.

Maximum exposure to credit risk

The table below shows the Company's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

	Balance sheet asset		
	Gross amounts £	Loss allowances £	Net exposure £
2020			
Finance leases	97,187,886	-	97,187,886
Total	97,187,886	-	97,187,886
	Balance sheet asset		
	Gross amounts £	Loss allowances £	Net exposure £
2019			
Finance leases	97,956,843	(1,400,000)	96,556,843
Total	97,956,843	(1,400,000)	96,556,843

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Off-balance sheet exposures are guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that we would have to pay if the guarantees were called on. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the facility, the maximum exposure is the total amount of the commitment. Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

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 instruments that is most exposed to credit risk in the Company is finance agreements, comprising loans and advances to customers.

	2020 £	2019 £
Net investment in finance leases (note 9)	97,187,886	96,556,843
Finance agreements (note 9)	97,187,886	96,556,843

All exposures are with companies in the commercial and public sectors.

The finance leases relate to one asset held by one corporate customer within the shipping industry.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 30 June 2020.

	Stage 1 £	At 30 June 2020 Total £	Stage 2 £	At 30 June 2019 Total £
Exposures				
Finance agreements	97,187,886	97,187,886	97,956,843	97,956,843
Total exposures	97,187,886	97,187,886	97,956,843	97,956,843
IFRS 9 ECL				
Finance agreements	-	-	(1,400,000)	(1,400,000)
Total ECL	-	-	(1,400,000)	(1,400,000)
Net exposures				
Finance agreements (note 9)	97,187,886	97,187,886	96,556,843	96,556,843
Total net exposures	97,187,886	97,187,886	96,556,843	96,556,843

Movements in ECL provision are set out below:

	Stage 2 Subject to lifetime ECL £	Total £
At 1 July 2019	(1,400,000)	(1,400,000)
Income statement credit for the year	1,400,000	1,400,000
At 30 June 2020	-	-
At 1 July 2018	(590,500)	(590,500)
Income statement charge for the year	(809,500)	(809,500)
At 30 June 2019	(1,400,000)	(1,400,000)

Movements in the finance agreements credit risk exposure are set out below:

	Stage 1 £	Stage 1 £	Total £
At 1 July 2019	-	97,187,886	97,187,886
Transfers from Stage 2 to Stage 1	97,187,886	(97,187,886)	-
At 30 June 2020	97,187,886	-	97,187,886

Net exposure of the finance agreements to credit risk, taking into consideration the value of collateral is summarised below:

	Finance agreements £	At 30 June 2020 Total £
Exposures	97,187,886	97,187,886
Collateral	(85,843,570)	(85,843,570)
Total net exposures	11,344,316	11,344,316

During the year, the Company reassessed the credit loss impact of its single customer using an updated ECL model and concluded that the customer should be classified under Stage 1. The underlying model calculation materially changed due to a change in the rating model. This change in model has resulted in the 12 month PD and lifetime PD reducing to immaterial levels for the Company. Consequently, the modelled outcome is a stage 1 with minimal provision. Therefore, no ECL provision has been recognised. For the prior year, the customer was classified under Stage 2. As a result of the transfer, the ECL provision was released to the income statement.

Market risk

Market risk is the potential adverse change in Company income or the value of Company net worth arising from movements in market rates, including interest rates, exchange rates, inflation rates and equity prices. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value and manages market risk accordingly. Details of the market risk management policy are disclosed in the Risk Management Policy and Control Framework in the Santander UK plc Annual Report which does not form part of this Report.

Interest rate risk

The Company is not exposed to any significant concentration of interest rate risk. Revenue is derived from the internal rate of return contained within the lease and changes to interest rates have no effect over the internal rate of return. However, the internal rate of return is exposed to changes in the rates of UK corporation tax and changes to these rates can adversely affect the Company's reported profit or loss after taxation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. RISK MANAGEMENT DISCLOSURES *(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 a loan from its immediate parent company Santander Asset Finance plc. All liabilities are repayable on demand.

5. PROFIT / (LOSS) FROM OPERATIONS

Directors' emoluments

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the intermediate UK parent company, Santander UK plc. The Directors' services to the Company are an incidental part of their duties. No emoluments were paid by the Company to the Directors during the year (2019: £nil).

Auditors' remuneration

Auditors' remuneration of £20,000 (2019: £20,000) was borne by the intermediate UK parent company Santander UK plc in the current 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

	2020 £	2019 £
Amounts payable to Santander Asset Finance plc	428,862	438,822
	<u>428,862</u>	<u>438,822</u>

7. TAX CHARGE / (CREDIT)

	2020 £	2019 £
Current tax		
UK corporation tax charge/ (credit) on profit/ (loss) for the year	525,164	(23,627)
Total current tax	<u>525,164</u>	<u>(23,627)</u>
Deferred tax		
Origination and reversal of temporary differences	(35,930)	(205,492)
Change in rate of UK corporation Tax	1,872,045	21,631
Total deferred tax	<u>1,836,115</u>	<u>(183,861)</u>
Tax charge/ (credit) on profit/ (loss) for the year	<u>2,361,279</u>	<u>(207,488)</u>

UK corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit/ (loss) for the year.

Finance Act 2016 introduced a reduction in the UK corporation tax rate to 17% from 1 April 2020 and this rate was used to calculate the deferred tax balance at 30 June 2019. However, this rate deduction was reversed in the UK Budget in March 2020. As a result, the UK corporation tax rate is to remain at 19% and it is this rate that has been applied to determine the deferred tax liability at 30 June 2020.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 £	2019 £
Profit/ (loss) before tax	2,574,915	(1,205,892)
Tax calculated at a rate of 19% (2019: 19%)	489,234	(229,119)
Effect of change in tax rate on deferred tax provision	1,872,045	21,631
Tax charge/ (credit) for the year	<u>2,361,279</u>	<u>(207,488)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

8. FINANCIAL ASSETS AT AMORTISED COST

	2020 £	2019 £
Non current		
Finance lease receivables	90,833,016	90,305,677
Current		
Finance lease receivables	6,354,870	6,251,166
Total financial assets at amortised cost	<u>97,187,886</u>	<u>96,556,843</u>

9. FINANCE LEASE

The Company has entered into one finance lease arrangement with a customer in the shipping industry.

	Gross investment in the lease		Present value of minimum lease payments	
	2020 £	2019 £	2020 £	2019 £
Less than one year	9,226,662	6,543,533	6,354,870	6,251,166
Later than one year but less than five years	35,996,985	28,196,971	24,792,950	24,019,101
Later than five years	95,883,839	111,990,950	66,040,066	66,286,576
	<u>141,107,486</u>	<u>146,731,454</u>	<u>97,187,886</u>	<u>96,556,843</u>
Less:				
Unearned finance income	(43,919,600)	(48,774,611)		
IFRS 9 ECL provision	-	(1,400,000)		
Net investment in finance leases	<u>97,187,886</u>	<u>96,556,843</u>		
Non-current			90,833,016	90,305,677
Current			6,354,870	6,251,166
			<u>97,187,886</u>	<u>96,556,843</u>

Residual values of the asset leased under a finance lease at 30 June 2020 were £nil (2019: £nil). The Directors consider that the net investment in the finance lease is approximately equal to its fair value.

10. CAPITAL

Santander UK plc is the parent company of the Company's parent, Santander Asset Finance plc. 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.

At 30 June 2020, Santander UK plc, Santander Financial Services plc (formerly Abbey National Treasury Services plc), and Cater Allen Limited, which are the three PRA-regulated entities in the Santander UK group, were party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc including the Company. The parties to the Capital Support Deed 2015 were permitted to form a core UK group as defined in the PRA Rulebook. Exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed was to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breached or was at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group permission as supported by the Capital Support Deed 2015 expired on 31 December 2018. From 1 January 2019 as a result of ring-fencing, Santander UK plc entered into a new Capital support deed with Cater Allen Limited and certain non-regulated subsidiaries including the Company which expires 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

11. RELATED PARTY TRANSACTIONS

Trading activities

	2020 £	2019 £
Amounts owed by related parties		
Santander UK plc – group relief	1,581,267	2,106,432
	<u>1,581,267</u>	<u>2,106,432</u>
Amounts owed to related parties		
Santander Asset Finance plc	75,268,171	77,212,044
	<u>75,268,171</u>	<u>77,212,044</u>

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

	2020 £	2019 £
Amounts owed to related parties		
As at 1 July	77,212,044	78,557,895
Net movements	(1,943,873)	(1,345,851)
As at 30 June (note 12)	<u>75,268,171</u>	<u>77,212,044</u>

	2020 £	2019 £
Interest paid to Santander Asset Finance plc	428,862	438,822

Key management compensation

As detailed in note 5 the Company had no employees in either the current or preceding year and the Directors are remunerated through Santander UK plc therefore no key management compensation was paid by this Company.

Administration expenses

During the current year the Company paid administrative cost recharges to parent undertakings of £133,237 (2019: £501,113).

12. TRADE AND OTHER PAYABLES

	2020 £	2019 £
Amounts owed to related parties (note 11)	75,268,171	77,212,044
	<u>75,268,171</u>	<u>77,212,044</u>

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

13. DEFERRED TAX LIABILITIES

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	2020 £	2019 £
At beginning of year	(15,912,396)	(16,096,257)
Income Statement (charge)/ credit (note 7)	(1,836,115)	183,861
At end of year	<u>(17,748,511)</u>	<u>(15,912,396)</u>

Deferred tax liabilities are attributable to the following items:

	Balance Sheet		Income Statement	
	2020 £	2019 £	2020 £	2019 £
Deferred tax liabilities				

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Accelerated tax depreciation	(17,838,267)	(16,002,743)	(1,835,524)	193,899
IFRS 9 transitional adjustments	89,756	90,347	(591)	(10,038)
	<u>(17,748,511)</u>	<u>(15,912,396)</u>	<u>(1,836,115)</u>	<u>183,861</u>

14. ISSUED SHARE CAPITAL

	2020 No	2020 £	2019 No	2019 £
Issued and fully paid				
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

All issued share capital is classified as equity.

15. CONTINGENT LIABILITIES

The Company is part of the Santander UK Group. The Santander UK group engages in discussion, and cooperates, with HM Revenue & Customs (HMRC) in their oversight of the Santander UK group's tax matters. The Santander UK group adopted the UK's code of Practice on Taxation for Banks in 2010.

A lease in which the Company is the lessor is currently under review by HMRC in connection with claims for tax allowances. Under the terms of the lease agreement, the Company is fully indemnified in all material respects by the lessee for any liability arising from the disallowance of tax allowances plus accrued interest, which could be up to £43.5m. Whilst legal opinions have been obtained to support the Company's position, the matter remains uncertain pending formal resolution with HMRC and any subsequent litigation. In 2020, as required under the terms of the lease these matters have moved to formal litigation and it is currently anticipated that hearings will be held at the First Tier Tax Tribunal in 2021.

16. 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 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.