

A & L CF SEPTEMBER (4) LIMITED

Registered in England and Wales
Company Number 02095545

ANNUAL REPORT AND FINANCIAL
STATEMENTS

FOR THE YEAR ENDED
30 SEPTEMBER 2016

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COMPANIES HOUSE

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 September 2016.

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions and the exemption from preparing a Strategic Report in accordance with Section 414B of Companies Act 2006.

Principal activity and review of the year

The principal activity of A & L CF September (4) Limited (the "Company") is that of lessors and financiers of assets for the corporate sector.

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

Results and dividends

The profit for the year after taxation amounted to £656,877 (2015: £375,532 restated - refer to note 16). 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, except as noted, were as follows:

S D Affleck	(appointed 30 September 2016)
M W Evans	
C R Morley	(resigned 30 June 2016)
A N Mussert	

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have 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 these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and which 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. 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 current liabilities and 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 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 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.

On the basis of their assessment of the Company's financial position and of the enquiries made of the Directors of Santander UK 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.

REPORT OF THE DIRECTORS (CONTINUED)

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.

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 the steps that he/she ought to have taken as a Director in order 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 deemed to be re-appointed as auditors under Section 487(2) of the Companies Act 2006.

By Order of the Board,



ALEXANDER O'BRIEN

For and on behalf of
Santander Secretariat Services Limited, Secretary

14 July 2017

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF A & L CF SEPTEMBER (4) LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, A&L CF September (4) Limited's financial statements (the financial statements):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 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.

What we have audited

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

- the Balance Sheet as at 30 September 2016;
- The Income Statement for the year then ended;
- 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 and other explanatory information.

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 MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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 financial year for which the financial statements are prepared is consistent with the financial statements and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Report of the Directors. We have nothing to report in this respect.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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, 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 and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. 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 take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF A & L CF SEPTEMBER (4) LIMITED (CONTINUED)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities 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 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.

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. With respect to the Report of the Directors, we consider whether this report includes the disclosures required by applicable legal requirements.



Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 July 2017

INCOME STATEMENT

For the years ended 30 September

	Notes	2016 £	2015 Restated £
Revenue		2,140,071	2,238,413
GROSS PROFIT		2,140,071	2,238,413
Administrative expenses		(110,169)	(62,735)
PROFIT FROM OPERATIONS	4	2,029,902	2,175,678
Finance costs	5	(1,946,662)	(1,696,203)
PROFIT BEFORE TAX		83,240	479,475
Tax	6	573,637	(103,943)
PROFIT FOR THE YEAR		656,877	375,532

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

The accompanying notes on form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2016 and 2015

The Company has no comprehensive income or expenses attributable to the equity holders other than the profit for the current and previous year as set out in the Income Statement.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 30 September

	Issued share capital £	Retained Earnings £	Total Equity £
Balance at 1 October 2015	2	699,994	699,996
Profit for the year	-	656,877	656,877
Balance at 30 September 2016	<u>2</u>	<u>1,356,871</u>	<u>1,356,873</u>

	Issued share capital £	Retained Earnings Restated £	Total Equity Restated £
Balance at 1 October 2014	2	324,462	324,464
Profit for the year	-	375,532	375,532
Balance at 30 September 2015	<u>2</u>	<u>699,994</u>	<u>699,996</u>

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

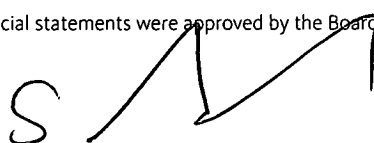
BALANCE SHEET

As at 30 September

	Notes	2016 £	2015 Restated £
ASSETS			
NON CURRENT ASSETS			
Operating lease assets	7	9,910,699	9,910,699
Finance lease receivables	8	20,181,702	22,766,675
		<u>30,092,401</u>	<u>32,677,374</u>
CURRENT ASSETS			
Finance lease receivables	8	2,486,005	2,010,390
		<u>2,486,005</u>	<u>2,010,390</u>
TOTAL ASSETS		<u>32,578,406</u>	<u>34,687,764</u>
LIABILITIES			
NON CURRENT LIABILITIES			
Deferred tax liabilities	13	(3,344,956)	(4,196,278)
CURRENT LIABILITIES			
Trade and other payables	12	(27,598,892)	(29,791,490)
Corporation tax payable		(277,685)	-
		<u>(27,876,577)</u>	<u>(29,791,490)</u>
TOTAL LIABILITIES		<u>(31,221,533)</u>	<u>(33,987,768)</u>
TOTAL NET ASSETS		<u>1,356,873</u>	<u>699,996</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	2	2
Retained earnings		1,356,871	699,994
		<u>1,356,873</u>	<u>699,996</u>
TOTAL EQUITY		<u>1,356,873</u>	<u>699,996</u>

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

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



Stephen D Affleck
Director
14 July 2017

CASH FLOW STATEMENT

For the years ended 30 September

	Notes	2016 £	2015 Restated £
Total profit for the year		656,877	375,532
NON-CASH ADJUSTMENTS			
Net change in finance lease receivables		2,109,358	1,693,183
Net change in accruals		-	(794)
Net change in deferred tax liability		(851,322)	(226,067)
Net change in group relief		-	415,822
Net change in corporation tax payable		277,685	-
		<u>1,535,721</u>	<u>1,882,144</u>
CASH FLOWS FROM OPERATING ACTIVITIES		2,192,598	2,257,676
Interest paid to parent undertakings		(1,946,662)	(1,696,203)
Management charges paid to parent undertakings		(110,169)	(62,735)
		<u>(2,056,831)</u>	<u>(1,758,938)</u>
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		<u>135,767</u>	<u>498,738</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash advances paid to parent undertakings		(135,767)	(498,738)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		<u>(135,767)</u>	<u>(498,738)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents at start of year		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	<u>-</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Future accounting developments (continued)

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.

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.

- b) IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. At the date of publication of these Financial Statements the standard is awaiting EU endorsement. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 16 on these Financial Statements.
- c) 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. At the date of publication of these Financial Statements the standard is awaiting EU endorsement. Whilst it is expected that a significant proportion of the Company's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on 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.

Revenue from finance leases is recognised in accordance with the Company's policy on Finance Lease Receivables (see below).

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

Finance lease agreements

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

Finance lease receivables

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

Operating lease assets

Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciation is provided at rates calculated to write off the cost of the assets, less estimated residual value, on a straight line basis over the estimated useful life. Land is not depreciated.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. 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 income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Cash and cash equivalents

The Company does not hold cash or cash equivalents.

Financial instruments

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.

Financial assets

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

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

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

Financial liabilities

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

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

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

Effective interest method

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

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 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 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.

The functional and presentation currency of the Company is Sterling.

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

Future accounting developments

The Company has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the Company:

- a) IFRS 9 'Financial Instruments' (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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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 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.

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

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

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

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

2. 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.

Residual values

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

Impairment loss allowance

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

Effective interest rate calculation

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 contractual repayment profile is used. If customers repay earlier than anticipated, this will generally lead to a reduction in the Balance Sheet carrying value and a gain in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 her to specific individuals. Formal standing committees are maintained for effective management and 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 committee and board of directors.

Credit risk

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

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

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

The classes of financial instrument that are most exposed to credit risk in the Company is net investment in operating leases (note 7) and finance leases (note 9).

	2016	2015
	£	£
Net investment in finance leases agreements	22,667,707	24,777,065
Operating lease assets	9,910,699	9,910,699
	<u>32,578,406</u>	<u>34,687,764</u>

All company exposures are to corporate customers in the distribution industry.

For the Company 100% (2015: 100%) of the balances are secured. The main types of security are charges over assets being financed. £Nil (2015: £Nil) of finance and operating leases are secured by bank guarantees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Arrears and impairment

Asset quality remains good with no lending balances in arrears at 30 September 2016 (2015: Nil).

The carrying value of repossessed stock at 30 September 2016 was £Nil (2015: £Nil).

The fair value of collateral on impaired assets at 30 September 2016 was £Nil (2015: £Nil).

Interest accrued on impaired assets at 30 September 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.

Terms have been renegotiated on £Nil (2015: £Nil) of lending that would have been past due or impaired.

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

Market risk

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

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's Balance Sheet, and from the investment of the Company's reserves.

Interest rate risk primarily arises in the Company's leasing trade. The exposure in this area is hedged with Santander UK plc Treasury function using fixed rate loans and other appropriate instruments.

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

Liquidity risk

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

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

4. PROFIT 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 (2015: £Nil).

Auditors' remuneration

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCE COSTS

	2016 £	2015 Restated £
Amounts payable to Santander Asset finance plc	1,946,662	1,696,203
	<u>1,946,662</u>	<u>1,696,203</u>

6. TAX

	2016 £	2015 Restated £
Current tax:		
UK corporation tax on profit of the year	277,685	330,010
Total current tax	<u>277,685</u>	<u>330,010</u>
Deferred tax:		
Origination and reversal of temporary differences	(261,037)	(231,718)
Change in rate of UK corporation tax	(590,285)	5,651
Total deferred tax	<u>(851,322)</u>	<u>(226,067)</u>
Tax (credit)/charge on profit for the year	<u>(573,637)</u>	<u>103,943</u>

UK corporation tax is calculated at 20% (2015: 20.5%) of the estimated assessable profit 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. Since this further change was substantively enacted prior to 30 September 2016, the effects have been reflected in the deferred tax balances at the balance sheet date.

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

	2016 £	2015 Restated £
Profit before tax	83,240	479,475
Tax calculated at a rate of 20% (2015: 20.5%)	16,648	98,292
Effect of change in tax rate on deferred tax provision	(590,285)	5,651
Tax (credit)/charge for the year	<u>(573,637)</u>	<u>103,943</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. OPERATING LEASE ASSETS

The Company enters into operating lease arrangements with customers in the corporate sector.

	2016 £	2015 £
Cost		
At 1 October	9,910,699	9,910,699
At 30 September	9,910,699	9,910,699
Accumulated depreciation		
At 1 October	-	-
At 30 September	-	-
Net book value		
At 1 October	9,910,699	9,910,699
At 30 September	9,910,699	9,910,699

8. FINANCE LEASE RECEIVABLES

	2016 £	2015 £
Non current		
Finance lease receivables	20,181,702	22,766,675
Current		
Finance lease receivables	2,486,005	2,010,390
Total finance lease receivables	22,667,707	24,777,065

9. FINANCE LEASE RECEIVABLES

The Company enters into finance lease arrangements with a customer in the distribution industry.

	<i>Gross investment in the lease</i>		<i>Present value of minimum lease payments</i>	
	2016 £	2015 £	2016 £	2015 £
Less than one year	3,667,952	3,719,312	2,486,005	2,010,390
Later than one year but less than five years	14,316,356	14,877,248	11,123,033	9,344,389
Later than five years	19,638,536	23,512,173	9,058,669	13,422,286
	37,622,844	42,108,733	22,667,707	24,777,065
Less:				
Unearned finance income	(14,955,137)	(17,331,668)		
Net investment in finance leases	22,667,707	24,777,065		
Non-current			20,181,702	22,766,675
Current			2,486,005	2,010,390
			22,667,707	24,777,065

Residual values of assets leased under finance leases at 30 September 2016 are £Nil (2015: £Nil). The Directors consider that the net investment in finance leases is approximately equal to their fair value.

10. CAPITAL

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

relating to the Company's capital management can be found in the Santander UK plc Annual Report which does not form part of this Report.

11. RELATED PARTY TRANSACTIONS

Trading activities

Payable to related parties

	2016	2015 Restated
	£	£
Abbey National Treasury Services plc - group relief	2,110,065	2,110,065
Santander Asset finance plc	25,488,827	27,681,425
	<u>27,598,892</u>	<u>29,791,490</u>

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

	2016	2015 Restated
	£	£
Amount owed to related parties		
As at 1 October	29,791,490	31,633,344
Net movements	(2,192,598)	(1,841,854)
	<u>27,598,892</u>	<u>29,791,490</u>
As at 30 September (note 12)		
	<u>27,598,892</u>	<u>29,791,490</u>
Interest charged to Santander Asset Finance plc	1,946,662	1,696,203

Key management compensation

No Director or key management personnel received any remuneration (2015: £Nil).

There were no related party transactions during the year, or existing at the balance sheet date, with the Company's or parent company's key management personnel.

Administration expenses

During the current year the Company paid administrative cost recharges to parent undertakings of £110,169 (2015: £62,735).

12. TRADE AND OTHER PAYABLES

	2016	2015 Restated
	£	£
Payable to related parties (note 11)	27,598,892	29,791,490
	<u>27,598,892</u>	<u>29,791,490</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	2016 £	2015 £
At 1 October	(4,196,278)	(4,422,345)
Income Statement credit (note 6)	851,322	226,067
At 30 September	<u>(3,344,956)</u>	<u>(4,196,278)</u>

Deferred tax liabilities are attributable to the following items:

	Balance Sheet		Income Statement	
	2016 £	2015 £	2016 £	2015 £
Deferred tax liabilities				
Accelerated tax depreciation	(3,344,956)	(4,196,278)	851,322	226,067
	<u>(3,344,956)</u>	<u>(4,196,278)</u>	<u>851,322</u>	<u>226,067</u>

14. CASH AND CASH EQUIVALENTS

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

	2016 £	2015 £
Cash at bank	<u>-</u>	<u>-</u>

15. ISSUED SHARE CAPITAL

	2016 No	2016 £	2015 No	2015 £
Issued and fully paid				
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

All issued share capital is classified as equity.

16. RESTATEMENT OF PRIOR YEAR RESULTS

The 2015 financial statements have been revised to correct a misstatement of interest charged on loans from group undertakings. In the year ended 30 September 2015 this resulted in an increase in interest on loans from group undertakings of £418,595 and a reduction in corporation tax group relief of £85,812.

The misstatement resulted in restatements of previously reported amounts as follows:

	2015 (As previously reported) £	Adjustments £	2015 (As restated) £
Income Statement			
Finance costs	(1,277,608)	(418,595)	(1,696,203)
Tax	(189,755)	85,812	(103,943)
Profit for the year	708,315	(332,783)	375,532
Balance Sheet			
Trade and other payables	(29,458,707)	(332,783)	(29,791,490)
Retained earnings	1,032,777	(332,783)	699,994

The misstatement resulted in a change in retained earnings at 1 October 2015 from £1,032,777 as previously stated to £699,994. This represents an adjustment to correct an error for under-accrued finance costs payable to the parent undertaking and associated group relief.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. 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.