

A & L CF JUNE (3) LIMITED

**Registered in England & Wales
Company Number 2345838**

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
30 JUNE 2015**



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2015.

This directors' report has been prepared in accordance with the special provisions relating to small companies under Sections 415A (1) & (2) of the Companies Act 2006.

Principal activity and review of the year

The principal activity of A & L CF June (3) 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 loss for the year on ordinary activities after taxation amounted to £28,256 (2014: profit £2,128,121). The Directors do not recommend the payment of a final dividend (2014: Nil).

Directors

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

A Mussert
C Morley
M Evans

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law 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, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records which 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 4 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 Group companies for its funding. The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

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

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

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 these financial statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

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 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.

In accordance with Sections 485 and 487 of the Companies Act 2006, Deloitte LLP vacated office as auditor of the Company and PricewaterhouseCoopers LLP was duly appointed auditor for the Company with effect from 31 March 2016.

By Order of the Board



For and on behalf of
Santander Secretariat Services Limited, Secretary

30 March 2016

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A & L CF JUNE (3) LIMITED

We have audited the financial statements of A & L CF June (3) Limited for the year ended 30 June 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report or from the requirement to prepare a Strategic Report.



Tom Millar (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

30 March 2016

FINANCIAL STATEMENTS

For the year ended 30 June 2015

INCOME STATEMENT

For the year ended 30 June 2015

	Notes	2015 £	2014 £
Revenue		482,984	(500,429)
GROSS PROFIT/(LOSS)		482,984	(500,429)
Administrative expenses		(62,735)	(66,656)
PROFIT/(LOSS) FROM OPERATIONS	5	420,249	(567,085)
Finance costs	6	(460,988)	(433,494)
LOSS BEFORE TAX		(40,739)	(1,000,579)
Tax	7	12,483	3,128,700
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF A & L CF JUNE (3) LIMITED		(28,256)	2,128,121

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

The accompanying notes form an integral part of the accounts.

Statement of comprehensive income

For the year ended 30 June 2015

The Company has no comprehensive income or expenses attributable to the equity holders other than the loss (2014: profit) for the current and previous year as set out in the Income Statement.

The accompanying notes form an integral part of the accounts.

FINANCIAL STATEMENTS

For the year ended 30 June 2015

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 July 2014	100	5,921,116	5,921,216
Loss for the year	-	(28,256)	(28,256)
Balance at 30 June 2015	<u>100</u>	<u>5,892,860</u>	<u>5,892,960</u>

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 July 2013	100	3,792,995	3,793,095
Profit for the year	-	2,128,121	2,128,121
Balance at 30 June 2014	<u>100</u>	<u>5,921,116</u>	<u>5,921,216</u>

The accompanying notes form an integral part of the accounts.

FINANCIAL STATEMENTS

For the year ended 30 June 2015

BALANCE SHEET

As at 30 June 2015

	Notes	2015 £	2014 £
ASSETS			
NON CURRENT ASSETS			
Trade and other receivables	8	<u>98,978,571</u>	<u>100,089,641</u>
CURRENT ASSETS			
Trade and other receivables	8	<u>5,640,346</u>	<u>5,313,624</u>
TOTAL ASSETS		<u>104,618,917</u>	<u>105,403,265</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	<u>(79,224,165)</u>	<u>(80,087,697)</u>
NON CURRENT LIABILITIES			
Deferred tax liabilities	13	<u>(19,501,792)</u>	<u>(19,394,352)</u>
TOTAL LIABILITIES		<u>(98,725,957)</u>	<u>(99,482,049)</u>
TOTAL NET ASSETS		<u>5,892,960</u>	<u>5,921,216</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	<u>100</u>	<u>100</u>
Retained profit		<u>5,892,860</u>	<u>5,921,116</u>
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF A & L CF JUNE (3) LIMITED		<u>5,892,960</u>	<u>5,921,216</u>

The accompanying notes form an integral part of the accounts.

The financial statements were approved by the board of directors and authorised for issue on its behalf by:

30 March

2016. They were signed



Director

ADAM MASSERY

FINANCIAL STATEMENTS

For the year ended 30 June 2015

CASH FLOW STATEMENT

For the year ended 30 June 2015

	Notes	2015 £	2014 £
Total (loss)/profit for the year		(28,256)	2,128,121
NON-CASH ADJUSTMENTS			
Decrease in trade and other receivables		784,348	1,561,524
(Increase)/decrease in group relief receivable		(119,923)	2,452,063
Increase / (decrease) in deferred tax liability		107,440	(2,652,337)
		771,865	1,361,250
CASH FLOWS FROM OPERATING ACTIVITIES		743,609	3,489,371
Interest paid to parent undertakings		(460,988)	(433,494)
Management charges paid to parent undertakings		(62,735)	(66,656)
		(523,723)	(500,150)
NET CASH FLOWS FROM OPERATING ACTIVITIES		219,886	2,989,221
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash advances (paid to)/received from parent undertakings		(219,886)	(2,989,221)
		(219,886)	(2,989,221)
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents at start of year		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	-	-

The accompanying notes form an integral part of the accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), including interpretations issued by the IFRS Interpretations Committee (IFRIC) of the IASB (together IFRS). The Company has also complied with its legal obligation to comply with International Financial Reporting Standards as adopted by the European Union as there are no applicable differences between the two frameworks for the periods presented.

The functional and presentation currency of the Company is Sterling.

Going concern

The Financial Statements have been prepared on the going concern basis using the historical cost convention, as modified by the revaluation of financial assets. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' statement of going concern set out in the Directors' Report.

Future accounting developments

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

- a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below.

Phase 1: Classification and measurement of financial assets and financial liabilities. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. 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.

Phase 2: Impairment methodology. IFRS 9 fundamentally changes the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. It is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting. These requirements align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

The effective date of IFRS 9 is 1 January 2018. For annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. At the date of publication of these Financial Statements the standard is awaiting EU endorsement and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these Financial Statements.

- b) 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.

- c) 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.

- d) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. However, it is not practicable to provide a reasonable estimate of their effects on the Company's Financial Statements until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

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.

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 and hire purchase contracts.

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 corresponding rental obligations are recorded as borrowings. The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

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 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 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 accounts are based on management judgement, estimates and assumptions. There is a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

Residual values

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

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

Impairment Provisions

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

Effective interest rate calculations

IAS 39 "Financial Instruments: Recognition and Measurement" requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the effective interest rate (EIR) methodology. In order to calculate EIR, the 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.

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.

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 and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements. The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk fora, risk committee and board of directors.

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Credit risk (continued)

The class of financial instrument that is most exposed to credit risk in the Company is net investment in finance leases (note 9). The net investment in finance leases at 30 June 2015 was £104,618,917 (2014: £105,403,265).

All company exposures are with corporate customers in the shipping industry.

For the Company, 100% (2014: 100%) of the balances are secured. The main types of security are charges over assets being financed. In addition £92,304,422 (2014: £92,458,793) of finance leases are secured by bank guarantees.

Arrears and impairment

Asset quality remains good with no lending balances in arrears at 30 June 2015 (2014: Nil).

The carrying value of repossessed stock at 30 June 2015 was £Nil (2014: £Nil).

The fair value of collateral on impaired assets at 30 June 2015 was £Nil (2014: £Nil).

Interest accrued on impaired assets at 30 June 2015 was £Nil (2014: £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 (2014: £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 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

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

Changes in interest rates would result in no impact on either the equity of the Company or on the profit before tax as interest is allocated on a lease agreement by lease agreement basis within the Company and all interest rate risk is borne by the 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 Company is dependent on loans from its immediate parent company Santander Asset Finance plc. All liabilities are repayable on demand.

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

5. 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. No emoluments were paid by the Company to the directors during the year (2014: £nil).

Auditor's remuneration

Auditor's remuneration of £5,227 (2014: £5,079) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

6. FINANCE COSTS

	2015 £	2014 £
Amounts payable to Santander Asset Finance plc	460,988	433,494
	<u>460,988</u>	<u>433,494</u>

7. TAX

	2015 £	2014 £
Current tax		
UK corporation tax on loss for the year	(119,923)	(476,363)
Total current tax	<u>(119,923)</u>	<u>(476,363)</u>
Deferred tax		
Origination and reversal of temporary differences	111,470	251,233
Change in rate of UK corporation Tax	(4,030)	(2,903,570)
Total deferred tax	<u>107,440</u>	<u>(2,652,337)</u>
Tax credit on loss for the year	<u>(12,483)</u>	<u>(3,128,700)</u>

UK corporation tax is calculated at 20.75% (2014: 22.5%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 21% to 20%, with effect from 1 April 2015.

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax to 20% effective from 1 April 2015, was enacted on 17 July 2013.

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 were enacted on 18 November 2015. The UK government has announced it will enact a further reduction in the main rate of tax of 1%, down to 17% at 1 April 2020 in the Finance Bill 2016 which is expected to be enacted in July 2016. The potential impact of such changes in rate would be to reduce the deferred tax liability by approximately £2.8m. However, as these changes in rate had not been substantively enacted at the balance sheet date they are not reflected in the deferred tax liability at 30 June 2015.

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

	2015 £	2014 £
Loss before tax	(40,739)	(1,000,579)
Tax calculated at a rate of 20.75% (2014: 22.5%)	(8,453)	(225,130)
Effect of change in tax rate on deferred tax provision	(4,030)	(2,903,570)
Tax credit for the year	<u>(12,483)</u>	<u>(3,128,700)</u>

8. TRADE AND OTHER RECEIVABLES

	2015 £	2014 £
Non current		
Finance lease receivables	98,978,571	100,089,641
Current		
Finance lease receivables	5,640,346	5,313,624
Total trade and other receivables	<u>104,618,917</u>	<u>105,403,265</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

9. FINANCE LEASES

The Company enters into finance lease arrangements with customers in the shipping industry.

	<i>Gross investment in the lease</i>		<i>Present value of minimum lease payments</i>	
	2015	2014	2015	2014
	£	£	£	£
Less than one year	5,931,586	5,760,216	5,640,346	5,313,624
Later than one year but less than five years	25,560,009	24,821,554	21,737,485	20,624,965
Later than five years	142,365,808	149,077,967	77,241,086	79,464,676
	173,857,403	179,659,737	104,618,917	105,403,265
Less:				
Unearned finance income	(69,238,486)	(74,256,472)		
Net investment in finance leases	104,618,917	105,403,265		
Non-current			98,978,571	100,089,641
Current			5,640,346	5,313,624
			104,618,917	105,403,265

Residual values of assets leased under finance leases at 30 June 2015 is £Nil (2014: £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 in an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK Group. Disclosures relating to the Company's capital management can be found in the Santander UK plc Annual Report which does not form part of this Report.

11. RELATED PARTY TRANSACTIONS

Trading activities

Payable to / (receivable from) related parties

	2015	2014
	£	£
Santander Asset Finance plc – group relief	15,794	15,794
Abbey National Treasury Services plc - group relief	(2,111,197)	(1,991,274)
Santander Asset Finance plc	81,319,569	82,063,177
	79,224,166	80,087,697

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

	2015	2014
	£	£
Amount owed to related parties		
As at 1 July	80,087,697	81,125,005
Net movements	(863,531)	(1,037,308)
As at 30 June (note 12)	79,224,166	80,087,697
Interest paid to Santander Asset Finance plc	460,988	433,494

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 £62,735 (2014: £66,656)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (CONTINUED)

12. TRADE AND OTHER PAYABLES

	2015 £	2014 £
Payable to related parties (note 11)	79,224,166	80,087,697
	<u>79,224,166</u>	<u>80,087,697</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:

	2015 £	2014 £
At 1 July	(19,394,352)	(22,046,689)
Income Statement (charge) / credit (note 7)	(107,440)	2,652,337
At 30 June	<u>(19,501,792)</u>	<u>(19,394,352)</u>

Deferred tax assets and liabilities are attributable to the following items:

	Balance Sheet		Income Statement	
	2015 £	2014 £	2015 £	2014 £
Deferred tax liabilities				
Accelerated tax depreciation	(19,501,792)	(19,394,352)	(107,440)	2,652,337
	<u>(19,501,792)</u>	<u>(19,394,352)</u>	<u>(107,440)</u>	<u>2,652,337</u>

14. CASH AND CASH EQUIVALENTS

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

	2015 £	2014 £
Cash at bank	-	-

15. ISSUED SHARE CAPITAL

	2015 No	2015 £	2014 No	2014 £
Issued and fully paid				
Ordinary shares of £1 each	100	100	100	100

All issued share capital is classified as equity.

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 S.A., a company registered in Spain. Banco Santander S.A. is the parent undertaking of the largest Group of undertakings for which Group accounts are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest Group of undertakings for which Group accounts are drawn up and of which the Company is a member.

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