A & L CF JUNE (3) LIMITED

Registered in England & Wales
Company Number 02345838

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2018.

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

Principal activities and review of the year

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

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

During the year, the Company generated a loss before tax of £474,906 (2017: loss of £1,594,520).

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 amounted to £399,603 (2017: loss £347,106). The Directors do not recommend the payment of a final dividend (2017: nil).

Directors

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

SD Affleck	
GSS Ashworth	(appointed 23 October 2017)
MW Evans	(resigned 24 October 2017)
AM Konter	(appointed 23 October 2017)
AN Mussert	(resigned 24 October 2017)

Statement of directors' responsibilities in respect of the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

REPORT OF THE DIRECTORS *(continued)*

Statement of going concern

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

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

The Board of Santander UK 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 and group to continue as a going concern or its ability to continue with the current banking arrangements.

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

Financial Instruments

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

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

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

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

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

Qualifying third party indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remained in force throughout the year and as at the date of this Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

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

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware
- the Directors have taken all the steps that he ought to have taken as Directors to make himself 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
27 March 2019

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

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 30 June 2018; the Statement of Comprehensive Income; the Cash Flow Statement; the Statement of Changes in Equity for the year then ended and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not

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

identify any material misstatements in the Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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

Lawrence Wilkinson

Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June

	Note	2018 £	2017 £
Revenue		**280,196**	(943,018)
GROSS PROFIT/ (LOSS)		**280,196**	(943,018)
Administrative expenses		**(310,945)**	(189,355)
LOSS FROM OPERATIONS	5	**(30,749)**	(1,132,373)
Finance costs	6	**(444,157)**	(462,147)
LOSS BEFORE TAX		**(474,906)**	(1,594,520)
Tax credit	7	**75,303**	1,247,414
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE EXPENSE OF A & L CF JUNE (3) LIMITED		**(399,603)**	(347,106)

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June

	Issued capital £	**Retained earnings £**	**Total equity £**
Balance at 1 July 2017	**100**	**7,426,857**	**7,426,957**
Loss for the year	**-**	**(399,603)**	**(399,603)**
Balance at 30 June 2018	**100**	**7,027,254**	**7,027,354**

	Issued capital £	Retained earnings £	Total Equity £
Balance at 1 July 2016	100	7,773,963	7,774,063
Loss for the year	-	(347,106)	(347,106)
Balance at 30 June 2017	100	7,426,857	7,426,957

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

BALANCE SHEET

As at 30 June

	Note	2018 £	2017 £
ASSETS			
NON CURRENT ASSETS			
Loans and receivables	8	**93,620,678**	95,226,108
CURRENT ASSETS			
Loans and receivables	8	**6,078,408**	5,900,363
TOTAL ASSETS		**99,699,086**	101,126,471
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	**(76,475,090)**	(77,375,965)
NON CURRENT LIABILITIES			
Deferred tax liabilities	13	**(16,196,642)**	(16,323,549)
TOTAL LIABLITIES		**(92,671,732)**	(93,699,514)
TOTAL NET ASSETS		**7,027,354**	7,426,957
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	**100**	100
Retained earnings		**7,027,254**	7,426,857
TOTAL EQUITY		**7,027,354**	7,426,957

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

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

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

A M Konter
Director
27 March 2019

CASH FLOW STATEMENT

For the year ended 30 June

	Note	2018 £	2017 £
Total loss for the year		**(399,603)**	(347,106)
NON-CASH ADJUSTMENTS			
Decrease in trade and other receivables		**1,427,384**	2,500,085
Decrease/ (increase) in group relief receivable		**51,605**	(2,170)
Decrease in deferred tax liability		**(126,907)**	(1,245,244)
		1,352,082	1,252,671
CASH FLOWS FROM OPERATING ACTIVITIES		**952,479**	905,565
Interest paid to parent undertakings		**(444,157)**	(462,147)
Management charges paid to parent undertakings		**(310,945)**	(189,355)
		(755,102)	(651,502)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		**197,377**	254,063
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan repayments made to related parties		**(197,377)**	(254,063)
CASH FLOWS USED IN FINANCING ACTIVITIES		**(197,377)**	(254,063)
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 financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. ACCOUNTING POLICIES

The functional and presentation currency of the Company is Sterling.

General information

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

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

Going concern

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

Future accounting developments

At 30 June 2018, the Company had not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective:

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 are similar to IAS 39. 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 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 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 FOR THE YEAR ENDED 30 JUNE 2018

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 and impact: 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. There is no requirement to restate comparative information. The application of IFRS 9 is not expected to have any material impact on the Company.

For further details about Santander UK group's transition to IFRS 9 can be found in our separate document 'Transition to IFRS 9' available on our website at www.santander.co.uk/uk/about-santander-uk/investor-relations/santander-uk-group-holdings-plc.

b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The standard is effective for annual periods beginning on or after 1 January 2018. The standard establishes a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. Revenue relating to lease contracts is outside the scope of IFRS 15. For Santander UK group's fee and commission income, which is within the scope of the standard, income is recognised as services are provided and this continues under the performance obligation approach in IFRS 15. Consequently, the application of IFRS 16 is not expected to have any material impact on the Company.

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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

The Company has elected to apply the modified retrospective approach whereby the ROU asset at the date of initial application is measured at an amount equal to the lease liability. The ROU asset is adjusted for any prepaid lease payments and incentives relating to the relevant leases that were recognised on the balance sheet at 31 December 2018. It includes the estimated costs of restoring the underlying assets to the condition required by the lease terms and conditions. The application of IFRS 16 is not expected to have any material impact on the Company.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

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

Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. ACCOUNTING POLICIES *(continued)*

Income taxes including deferred taxes

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

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

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

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

Financial instruments

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 statement of comprehensive income. 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 statement of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 has defaulted, is experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as default or delinquency in interest or principal payments;
c) the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Company would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
i) adverse changes in the payment status of borrowers in the group; or
ii) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for an individually assessed financial asset it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

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.

Impairment Provisions

Individual provisions are made in respect of finance and rental agreements where recovery is considered doubtful; a 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 statement of comprehensive income comprises write offs, recoveries and the net movement in provisions in the year.

Effective interest rate calculations

IAS 39 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 statement of comprehensive income.

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

Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Company as and when they fall due. The credit quality of customer assets is mitigated by the credit approval process in place. Credit risk is mitigated by security taken over the borrower's asset. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

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

The class of financial instrument that is most exposed to credit risk in the Company is net investment in the finance lease (note 9). The net investment in the finance lease at 30 June 2018 was £99,699,086 (2017: £101,126,471).

The finance lease asset is provided to one corporate customer within the shipping industry.

For the Company, 100% (2017: 100%) of the balances are secured. The main type of security is a charge over the asset being financed. In addition £89,022,922 (2017: £89,776,143) of the finance lease asset is secured by bank guarantees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Arrears and impairment

The carrying value of assets that are neither past due or not impaired is £99,699,086 (2017: £101,126,471)

The carrying value of repossessed stock at 30 June 2018 was £nil (2017: £nil).

The fair value of collateral on impaired assets at 30 June 2018 was £nil (2017: £nil).

Interest accrued on impaired assets at 30 June 2018 was £nil (2017: £nil).

Impairment loss allowances were £nil (2017: £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 (2017: £nil) of lending that would have been past due or impaired.

Market risk

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

Interest rate risk

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

Liquidity risk

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

The Company is dependent on a loan from its immediate parent company Santander Asset Finance plc. All liabilities are repayable on demand.

5. LOSS FROM OPERATIONS

Directors' emoluments

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

Auditors' remuneration

Auditors' remuneration of £5,500 (2017: £5,000) was borne by the intermediate UK parent company Santander UK plc in the current and preceding year.

No non-audit fees were borne on the Company's behalf in either the current or preceding year.

Particulars of employees

No salaries or wages have been paid to employees, including the directors, during the year or the preceding year. The Company had no employees in either the current or the preceding year.

Exceptional items

Items that are material either because of their size or nature, or that are non-recurring are considered as exceptional items and are presented within the line items to which they relate. During the previous year, the exceptional item as detailed below has been included within revenue within the statement of comprehensive income:

	2018 £	2017 £
Reassessment of revenue flows under lease	-	1,239,261

The terms of the lease arrangements are such that the Lessors' return derived under the terms of the lease agreement are determined on a post-tax basis. During the previous year, changes in the rates of tax as indicated in Note 7 below have adversely impacted revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

6. FINANCE COSTS

	2018 £	2017 £
Amounts payable to Santander Asset Finance plc	**444,157**	462,147
	444,157	462,147

7. TAX CREDIT

	2018 £	2017 £
Current tax		
UK corporation tax on loss for the year	**51,604**	(2,170)
Total current tax	**51,604**	(2,170)
Deferred tax		
Origination and reversal of temporary differences	**(141,836)**	(312,747)
Change in rate of UK corporation Tax	**14,929**	(932,497)
Total deferred tax	**(126,907)**	(1,245,244)
Tax credit on loss for the year	**(75,303)**	(1,247,414)

UK corporation tax is calculated at 19.00% (2017: 19.75%) of the estimated assessable losses for the year.

The Finance Act 2016 introduced a further reduction in the corporation tax rate to 17% from 2020. The effects have been reflected in the deferred tax balances at both 30 June 2018 and 2017.

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:

	2018 £	2017 £
Loss before tax	**(474,906)**	(1,594,520)
Tax calculated at a rate of 19.00% (2017: 19.75%)	**(90,232)**	(314,917)
Effect of change in tax rate on deferred tax provision	**14,929**	(932,497)
Tax credit for the year	**(75,303)**	(1,247,414)

8. LOANS AND RECEIVABLES

	2018 £	2017 £
Non current		
Finance lease receivables	**93,620,678**	95,226,108
Current		
Finance lease receivables	**6,078,408**	5,900,363
Total loans and receivables	**99,699,086**	101,126,471

9. FINANCE LEASE

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

	Gross investment in the lease		*Present value of minimum lease payments*	
	2018	2017	**2018**	2017
	£	£	**£**	£
Less than one year	**6,352,945**	6,158,651	**6,078,408**	5,900,363
Later than one year but less than five years	**27,375,701**	26,538,466	**23,444,329**	22,748,013
Later than five years	**119,355,754**	126,316,206	**70,176,349**	72,478,095
	153,084,400	159,013,323	**99,699,086**	101,126,471
Less:				
Unearned finance income	**(53,385,314)**	(57,886,852)		
Net investment in finance leases	**99,699,086**	101,126,471		
Non-current			**93,620,678**	95,226,108
Current			**6,078,408**	5,900,363
			99,699,086	101,126,471

Residual values of the asset leased under a finance lease at 30 June 2018 were £nil (2017: £nil). The Directors consider that the net investment in the finance lease is approximately equal to its fair value.

10. CAPITAL

The Company's UK parent, Santander UK plc (Santander UK), adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK group.

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

11. RELATED PARTY TRANSACTIONS

Trading activities
Payable to/ (receivable from) related parties

	2018	2017
	£	£
Abbey National Treasury Services plc - group relief	**(2,082,805)**	(2,134,409)
Santander Asset Finance plc	**78,557,895**	79,510,374
	76,475,090	77,375,965

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

	2018	2017
	£	£
Amount owed to related parties		
As at 1 July	**77,375,965**	78,283,700
Net movements	**(900,875)**	(907,735)
As at 30 June (note 12)	**76,475,090**	77,375,965
Interest paid to Santander Asset Finance plc	**444,157**	462,147

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

11. RELATED PARTY TRANSACTIONS *(continued)*

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 £310,945 (2017: £189,355).

12. TRADE AND OTHER PAYABLES

	2018	2017
	£	£
Payable to related parties (note 11)	76,475,090	77,375,965
	76,475,090	77,375,965

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:

	2018	2017
	£	£
As at 1 July	(16,323,549)	(17,568,793)
Income Statement credit (note 7)	126,907	1,245,244
As at 30 June	(16,196,642)	(16,323,549)

Deferred tax liabilities are attributable to the following items:

	Balance Sheet		Income Statement	
	2018	2017	2018	2017
	£	£	£	£
Deferred tax liabilities				
Accelerated tax depreciation	(16,196,642)	(16,323,549)	126,907	1,245,244
	(16,196,642)	(16,323,549)	126,907	1,245,244

14. CASH AND CASH EQUIVALENTS

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

	2018	2017
	£	£
Cash at bank	-	-

15. ISSUED SHARE CAPITAL

	2018	2018	2017	2017
	No	£	No	£
Issued and fully paid				
Ordinary shares of £1 each	100	100	100	100

All issued share capital is classified as equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

16. PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

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