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COMPANY REGISTRATION NUMBER FC024509

SOVEREIGN HILLI LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2009



SOVEREIGN HILLI LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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SOVEREIGN HILL LIMITED
OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 DECEMBER 2009

Company registration number	FC024509
The board of directors	M W Evans C R Morley G A Faulkner A T Rougier
Company secretary	D Hubbard-Taylor
Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Statutory auditor	Deloitte LLP Chartered Accountants & Statutory Auditors Birmingham United Kingdom
Bankers	Alliance & Leicester plc Bridle Road Bootle Merseyside L30 4GB

SOVEREIGN HILL LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

The directors present their non-statutory annual report on the affairs of Sovereign Hill Limited, company registration number FC024509 (the "Company"), together with the non-statutory financial statements and auditors' report, for the year ended 31 December 2009

The financial statements on pages 10 to 27 are not the Company's statutory financial statements. They have been prepared in accordance with the provisions of the United Kingdom Companies Act 2006 which would have applied had they been statutory financial statements

These financial statements will be delivered to the Registrar of Companies together with the auditors' report on these financial statements

RESULTS AND DIVIDENDS

The profit for the year on ordinary activities after taxation amounted to £79,186 (2008 profit £107,647). The directors have not recommended a dividend (2008 £Nil).

CONTROLLING PARTY AND PARENT UNDERTAKINGS

The immediate parent undertaking is Alliance & Leicester Commercial Finance plc

On 9 January 2009 the entire share capital of Alliance & Leicester plc was transferred from Banco Santander S A to Abbey National plc. On that date Abbey National plc became an intermediate parent undertaking.

On 11 January 2010 Abbey National plc changed its name to Santander UK plc

The controlling party Banco Santander S A delegates various authorities to the intermediate parent undertakings of the Company, Santander UK plc (formerly Abbey National plc) and Alliance & Leicester plc and to the immediate parent undertaking Alliance & Leicester Commercial Finance plc. These parent undertakings are collectively referred to as associated parent undertakings in this Report and in the notes to financial statements.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of Alliance & Leicester Commercial Finance plc and operates as part of Banco Santander S A's Corporate Banking Division within the United Kingdom Operation.

The Company's principal activities were those of lessors and financiers of assets for the corporate sector.

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

SOVEREIGN HILLI LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES (continued)

As shown in the Company's Income Statement on page 10, the Company's profit from operations decreased during the year compared to the prior year due to a decrease in rental income

The Balance Sheet on page 12 shows that the net assets of the Company increased during the year. Details of amounts owed to the Company's immediate parent undertaking at 31 December 2009 are shown in note 13 to the financial statements

The Santander UK Group manages operations on a divisional basis. For this reason, the Company's directors believe that non-financial key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Santander UK Group, which includes the Company, is discussed in the Group's Annual Report, which does not form part of this Report.

The Key Performance Indicators (KPIs) for the Company are set out below

Profit from operations

2009 £ 579,497

2008 £2,032,750

Customer exposure

2009 £42,582,199

2008 £43,429,950

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. The Company's objectives, policies and processes for managing its capital are described in note 12 to the financial statements.

Details of the Company's financial risk management objectives, its financial instruments and hedging activities, and its exposures to credit risk, market risk, liquidity risk and other risks are set out in note 5 to the financial statements.

The Company is part of the Santander UK Group. The Company has net current liabilities and is reliant on other companies in the Santander UK Group for a significant proportion of its funding. The Board of Santander UK plc has confirmed that it is a going concern, and that it will provide funding to the Company for the foreseeable future.

The directors, having assessed the responses of the directors of the Company's intermediate parent undertaking 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 the Santander UK 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 the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

SOVEREIGN HILL LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS

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

M W Evans

C R Morley

C S Jones

(resigned 16 May 2009)

G A Faulkner

(appointed 9 December 2009)

A T Rougier

(appointed 9 December 2009)

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance with the Company (2008 none)

PRINCIPAL RISKS AND UNCERTAINTIES

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 and liquidity risk. The Company's risks were managed during the year on a group level by the ultimate parent company, Banco Santander S A and the intermediate parent undertaking Santander UK plc.

The lending book of the Company relates to a single customer in the shipping industry and the credit risks specific to this lending book are disclosed in note 5 to the financial statements. The directors do not expect any significant change in the level of business in the foreseeable future.

The Company is financed by loans from its immediate parent undertaking, Alliance & Leicester Commercial 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 the parent company, Santander UK plc, has confirmed that the funding will remain in place for the foreseeable future. Santander UK plc is itself exposed to negative impacts on the availability of liquidity and on levels of capital arising out of the current economic climate. In confirming the availability of funding to the Company, the Board of Santander UK plc has taken account of its own ability to manage these risks. More details on the management of these risks is given in note 5.

Residual values are reviewed for impairment in line with the policy of the immediate parent undertaking, Alliance & Leicester Commercial Finance plc and an appropriate provision is recognised in the income statement.

DISCLOSURE OF INDEMNITIES

The directors confirm that -

Enhanced third party indemnity provisions 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 Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

SOVEREIGN HILL LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors as at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(2) the director has taken all the steps that he ought to have taken as a director in order 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

STATUTORY AUDITORS

Deloitte LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Company's forthcoming Annual General Meeting

Approved by the board on ²⁶February 2010
and signed on its behalf by



Colin Richard Morley
Director

SOVEREIGN HILLI LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2009

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. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 2006 which would have applied if the financial statements were statutory financial statements.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to

- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 which would have applied if the financial statements were statutory financial statements. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOVEREIGN HILLI LIMITED

We have audited the non-statutory financial statements of Sovereign Hilli Limited, (the "Company"), for the year ended 31 December 2009 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely for the exclusive use of the members and solely for the purpose of showing the results of management's stewardship of the resources entrusted to it. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union, and the provisions of the Companies Act 2006 that would have applied were these statutory financial statements, and for being satisfied that the financial statements give a true and fair view are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and have been prepared in accordance with the provisions of the Companies Act 2006 which would have applied if the financial statements were statutory financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

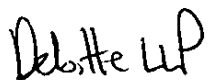
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SOVEREIGN HILL LIMITED (continued)**

OPINION

In our opinion

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and
- the financial statements have been prepared in accordance with the provisions of the Companies Act 2006 which would have applied if the financial statements were statutory financial statements



Deloitte LLP
Chartered Accountants
Birmingham
United Kingdom

28 February 2010

SOVEREIGN HILLI LIMITED
(COMPANY REGISTRATION NUMBER FC024509)

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £	2008 £
Revenue		623,390	2,168,549
GROSS PROFIT		623,390	2,168,549
Administrative expenses		(43,893)	(135,799)
PROFIT FROM OPERATIONS	7	579,497	2,032,750
Finance costs	8	(470,677)	(1,882,927)
PROFIT BEFORE TAX		108,820	149,823
Corporation tax expense	9	(29,634)	(42,176)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF SOVEREIGN HILLI LIMITED		79,186	107,647

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

The notes on pages 14 to 27 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

The Company has no comprehensive income or expenses attributable to the equity holders other than the profit (2008 profit) for the current and previous year as set out in the income statement

The notes on pages 14 to 27 form part of these financial statements

SOVEREIGN HILLI LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 January 2009	12,000	(42,473)	(30,473)
Profit for the year	-	79,186	79,186
Balance at 31 December 2009	<u>12,000</u>	<u>36,713</u>	<u>48,713</u>

	Issued capital £	Retained earnings £	Total equity £
Balance at 1 January 2008	12,000	(150,120)	(138,120)
Profit for the year	-	107,647	107,647
Balance at 31 December 2008	<u>12,000</u>	<u>(42,473)</u>	<u>(30,473)</u>

The notes on pages 14 to 27 form part of these financial statements

SOVEREIGN HILLI LIMITED
(COMPANY REGISTRATION NUMBER FC024509)

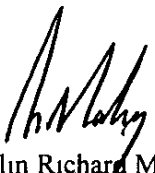
BALANCE SHEET


AS AT 31 DECEMBER 2009

	Notes	2009 £	2008 £
ASSETS			
NON CURRENT ASSETS			
Trade and other receivables	10	<u>42,325,248</u>	<u>42,891,160</u>
		42,325,248	42,891,160
CURRENT ASSETS			
Trade and other receivables	10	<u>256,951</u>	<u>538,790</u>
Cash and cash equivalents	14	<u>-</u>	<u>-</u>
		256,951	538,790
TOTAL ASSETS		<u>42,582,199</u>	<u>43,429,950</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	<u>12,000</u>	<u>12,000</u>
Retained profit/(loss)		<u>36,713</u>	<u>(42,473)</u>
EQUITY/(DEFICIT) ATTRIBUTABLE TO EQUITY HOLDERS OF SOVEREIGN HILLI LIMITED		48,713	(30,473)
NON CURRENT LIABILITIES			
Deferred tax liabilities	16	<u>9,912,522</u>	<u>8,896,485</u>
CURRENT LIABILITIES			
Trade and other payables	17	<u>32,620,964</u>	<u>34,563,938</u>
TOTAL EQUITY AND LIABILITIES		<u>42,582,199</u>	<u>43,429,950</u>

The notes on pages 14 to 27 form part of these financial statements

Approved by the Board on ²⁶ February 2010 and signed on its behalf by


Colin Richard Morley


Martin William Evans

SOVEREIGN HILL LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £	2008 £
Profit for the year		79,186	107,647
NON-CASH ADJUSTMENTS			
Decrease in trade and other receivables		847,751	291,994
Increase/(decrease) in deferred taxes		1,016,037	(29,213)
		<u>1,942,974</u>	<u>370,428</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Group relief (paid)/received		(1,057,792)	1,546,867
Interest paid to parent undertakings		(470,677)	(1,882,927)
Management charges paid to parent undertakings		(43,893)	(135,799)
		<u>(1,572,362)</u>	<u>(471,859)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		<u>370,612</u>	<u>(101,431)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment)/receipt of cash advances from parent undertakings		(370,612)	101,431
		<u>(370,612)</u>	<u>101,431</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents as at 1 January		-	-
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	14	<u>-</u>	<u>-</u>

The notes on pages 14 to 27 form part of these financial statements

SOVEREIGN HILL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The financial statements for Sovereign Hill Limited, company registration number FC024509 (the "Company") for the year were authorised for issue on 26 February 2010 and the Balance Sheet signed on the Board's behalf by Colin Richard Morley and Martin William Evans. The Company is incorporated in Bermuda and registered in England and Wales as an overseas branch. The Company's registered office is shown on page 2.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted for use by the European Union. In 2009, the Company adopted the following new or revised IFRS:

- a) IAS 23 'Borrowing Costs' – On 29 March 2007, the IASB issued an amendment to IAS 23 'Borrowing costs' which removes the option to expense borrowing costs incurred during the acquisition, construction or production of a qualifying asset. The adoption of the amendment to IAS 23 did not have any impact on the Company's profit or loss or financial position.
- b) IAS 1 'Presentation of Financial Statements' – On 6 September 2007, the IASB issued an amendment to IAS 1 'Presentation of Financial Statements' which changes the way in which non-owner changes in equity are required to be presented. As a result, a 'Statement of Changes in Equity' has been included as a separate primary financial statement showing changes in equity during the periods presented. In addition, the Statement of Recognised Income and Expenses has been replaced with a 'Statement of Comprehensive Income'. The adoption of the amendment to IAS 1 did not have any impact on the Company's profit or loss or financial position.
- c) IFRS 2 'Share based payments - vesting conditions and cancellations' – On 17 January 2008, the IASB issued an amendment to IFRS 2 'Share based payments' which requires share option awards lapsing due to a failure to meet the service condition to be treated as cancellations rather than forfeitures. The adoption of the amendment to IFRS 2 did not have any impact on the Company's profit or loss or financial position.
- d) IFRS 7 'Financial Instruments Disclosures - Improving Disclosures about Financial Instruments' – On 5 March 2009, the IASB issued an amendment to IFRS 7 'Financial Instruments Disclosures' which requires enhanced disclosures about fair value measurements and liquidity risk. Among other things, the amendment:
 - (1) requires disclosure of any change in the method for determining fair value and the reasons for the change,
 - (2) establishes a three-level hierarchy for making fair value measurements,
 - (3) requires disclosure for each fair value measurement in the balance sheet of which level in the hierarchy was used and any transfers between levels, with additional disclosures whenever level 3 of the hierarchy is used including a measure of sensitivity to a change in input data,
 - (4) clarifies that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts, and
 - (5) requires disclosure of a maturity analysis for derivative financial liabilities. The disclosures required by the amendment to IFRS 7 are reported in note 5 to the financial statement.

The principal accounting policies adopted by the Company are set out in note 2.

Results and disclosures for the comparative year are on the same basis as the 2009 results.

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

2. ACCOUNTING POLICIES

Accounting convention

The Company prepares its accounts under the historical cost convention and on the going concern basis. The directors continue to adopt the going concern basis as disclosed in the Directors' Report - Statement of Going Concern. The principal policies adopted are set out below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

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

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

Interest expense recognition

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 relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Finance lease agreements

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

Finance lease receivables

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

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

2. ACCOUNTING POLICIES (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'Profit before tax' as reported in the Income Statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit also includes items that are taxable or deductible that are not included in 'Profit before tax'. The Company's liability for current tax and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax liabilities are 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 deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

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 carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the Income Statement.

Financial liabilities

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.

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

2. ACCOUNTING POLICIES (continued)

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

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

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

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

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

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

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

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2. ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency monetary transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions, and any monetary assets or liabilities are re-translated at year end exchange rates. Foreign exchange gains and losses are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes to IFRS not adopted in the 2009 accounts

The International Accounting Standards Board has published the following IAS, IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Title	Subject	Mandatory for accounting periods starting on or after	Endorsed or when endorsement expected
IAS/IFRS standards			
IAS 24 (revised Nov 2009)	Related Party Disclosures	1 January 2011	To be confirmed
Amendments to IFRS 2 (Jun 2009)	Group Cash-settled Share-based Payment Transactions	See note 1 below	Q1 2010
Improvements to IFRSs 2009 (Apr 2009)	Improvements to IFRSs 2009	See note 2 below	Q1 2010
IFRS 3 (revised Jan 2008)	Business Combinations	1 July 2009	3 Jun 2009
Amendment to IAS 39 (Jul 2008)	Eligible Hedged Items	1 July 2009	15 Sept 2009
IFRS 9	Financial Instruments	1 January 2013	To be confirmed
Amendments to IAS 27 (Jan 2008)	Consolidated and Separate Financial Statements	1 July 2009	3 Jun 2009
Interpretations			
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	Q4 2009 ⁽³⁾
IFRIC 18	Transfers of Assets from Customers	Transfers on or after 1 July 2009	Q4 2009 ⁽³⁾
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010	To be confirmed
Amendment to IFRIC 14	Prepayments of a minimum funding requirement	1 January 2011	To be confirmed

Note 1 The amendments to IFRS 2 in June 2009 to clarify the accounting for group cash-settled share-based payment transactions are effective for annual periods beginning on or after 1 January 2010

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

2. ACCOUNTING POLICIES (continued)

Changes to IFRS not adopted in the 2009 accounts (continued)

The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 and IFRIC 11. These amendments to IFRS 2 supersede IFRIC 8 and IFRIC 11 and continue to have the same effective date as the original interpretations (IFRIC 8 was effective for annual periods beginning on or after 1 May 2006 and IFRIC 11 for annual periods beginning on or after 1 March 2007).

Note 2 Improvements to IFRSs 2009 includes amendments to a number of Standards and Interpretations. The effective date of all the amendments is either for annual periods beginning on or after 1 July 2009 or 1 January 2010.

Note 3 May be applied prior to endorsement as interpretative only, but transitional relief (i.e. prospective application) will be lost.

The Company has not elected to adopt these Standards and Interpretations early in these financial statements. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

3. 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.

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 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the Effective Interest Rate (EIR) methodology. In order to calculate EIR, the contracted repayment profile is used. If customers repay earlier than anticipated, this will generally lead to an increase in the Balance Sheet carrying value and a gain in the Income Statement.

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

4. 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 and liquidity risk. The Company manages its risk in line with the central risk management function of the Santander UK Group. Santander UK'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 his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management and oversight. Further information can be found in the Santander UK plc Annual Report which does not form part of this report.

5. 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'. Operational risk is monitored by the independent operational risk teams within Santander UK plc. The operational risk team has the overall responsibility for ensuring effective operation of the framework within which operational risk is managed, and for its consistent application across group companies. Day to day management of operational risk rests with line managers. It is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning.

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 are 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.

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

5. RISK MANAGEMENT DISCLOSURES (continued)

Credit risk (continued)

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

The class of financial instrument that is most exposed to credit risk in the Company is net investment in finance leases (note 11). The net investment in finance leases at 31 December 2009 was £42,582,199 (2008 £43,429,950).

For the Company, 100% (2008 100%) of the balances are secured. The main types of security are charges over assets being financed, such as ships. In addition £39,361,275 (2008 £39,910,921) of finance leases are secured by bank guarantees.

The lending book in this company in the current and prior year is wholly related to the shipping industry.

All exposures are with a single customer in the corporate sector.

Arrears and impairment

Asset quality remains good with no lending balances in arrears at 31 December 2009 (2008 Nil).

The carrying value of repossessed stock at 31 December 2009 was £Nil (2008 £Nil).

The fair value of collateral on impaired assets at 31 December 2009 was £Nil (2008 £Nil).

Interest accrued on impaired assets at 31 December 2009 was £Nil (2008 £Nil).

The portfolio is subject to regular monitoring for potential impairment. This monitoring includes review of each counterparty's repayment record and examination of new financial and business sector information relevant to each counterparty. In the event of deterioration in a counterparty's creditworthiness being identified through this monitoring, a thorough analysis is undertaken to establish the full circumstances surrounding the cause and severity of that deterioration. Where this indicates a reasonable expectation that future anticipated cash flows may not be received, the asset originating these doubtful cash flows is deemed to be impaired. Typical reasons for an impairment charge being made include counterparty insolvency, failure to make agreed repayments or a breach of a covenant included within facility documentation.

£Nil (2008 £Nil) of lease agreements that would have been past due or impaired, have had their terms renegotiated.

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

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

5. RISK MANAGEMENT DISCLOSURES (continued)

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.

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 the 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 income statement. Interest is allocated on a lease agreement by lease agreement basis within the Company and all interest rate risk is borne by the immediate parent company, Alliance & Leicester Commercial Finance plc.

Equity risk

The Company has no material exposure to equity markets.

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 undertaking.

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

All liabilities are repayable on demand.

6. OPERATING SEGMENTS

In the prior year and in line with the immediate parent undertaking, Alliance & Leicester Commercial Finance plc, the Company elected to adopt IFRS 8 "Operating Segments" earlier than the date required by the International Accounting Standards Board.

IFRS 8 requires operating segments to be identified on the basis of internal reports. Banco Santander S.A. manages its operations on a geographical basis. As outlined in the Directors' Report the Company operates as part of the Banco Santander S.A. Group's Corporate Banking Division within the United Kingdom Operation and therefore considers that all of its operations are managed as part of the Corporate Banking Division and further segmental analysis is not necessary.

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

7. PROFIT FROM OPERATIONS

Directors' emoluments

The directors received no remuneration for their services to this Company in either the current or the preceding year. Mr A Rougier is an employee of the intermediate parent undertaking Santander UK plc, Mr G Faulkner is an employee of the immediate parent company, Alliance & Leicester Commercial Finance plc and Mr M Evans and Mr C Morley are directors of the immediate parent Company, Alliance & Leicester Commercial Finance plc and the majority of their activities relate to services carried out in relation to Santander UK plc, Alliance & Leicester Commercial Finance plc and other Group companies. Therefore the directors deem it inappropriate to directly allocate any of their costs to the income statement account of this Company.

Auditors' remuneration

Auditors' remuneration of £8,000 (2008: £3,000) was borne by the immediate parent company, Alliance & Leicester Commercial Finance plc, in both the current and the preceding year.

No non-audit fees were borne on the Company's behalf in 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.

8. FINANCE COSTS

	2009 £	2008 £
Amounts payable to immediate parent undertakings	<u>470,677</u>	<u>1,882,927</u>

9. CORPORATION TAX EXPENSE

Components of Corporation tax

	2009 £	2008 £
Current tax income/(expense)		
Current tax income/(expense)	938,004	(92,265)
Adjustments to current tax of prior period	<u>48,399</u>	<u>20,876</u>
Current tax income/(expense)	<u>986,403</u>	<u>(71,389)</u>
Deferred tax (expense)/ income		
Relating to origination and reversal of temporary differences	(968,474)	48,696
Adjustments to deferred tax of prior period	<u>(47,563)</u>	<u>(19,483)</u>
Deferred tax (expense)/income	<u>(1,016,037)</u>	<u>29,213</u>
Tax expense reported in income statement	<u>(29,634)</u>	<u>(42,176)</u>

SOVEREIGN HILLI LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

9. CORPORATION TAX EXPENSE (continued)

Reconciliation of corporation tax expense to accounting profit

The effective rate of tax for the year was lower than (2008 lower than) the standard rate of corporation tax in the UK for the year ended 31 December 2009 of 28% (2008 28.5%) where the Company generates substantially all its profits. The differences are explained below:

	2009 £	2008 £
Profit before tax	<u>108,820</u>	<u>149,823</u>
Tax calculated at a rate of 28% (2008 28.5%)	(30,470)	(42,700)
Adjustment in respect of prior periods	836	-
Impact on deferred tax of change in the rate of corporation tax	-	524
Corporation tax expense	<u>(29,634)</u>	<u>(42,176)</u>

10. TRADE AND OTHER RECEIVABLES

	2009 £	2008 £
Non current		
Finance lease receivables	42,325,248	42,891,160
Current		
Finance lease receivables	<u>256,951</u>	<u>538,790</u>
Total trade and other receivables	<u>42,582,199</u>	<u>43,429,950</u>

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

11. FINANCE LEASES

The Company enters into finance lease arrangements with customers in the commercial sector

	<i>Gross investment in the lease</i>		<i>Present value of minimum lease payments</i>	
	2009	2008	2009	2008
	£	£	£	£
Less than one year	2,364,349	780,088	256,951	538,790
Later than one year but less than five years	11,068,144	5,116,786	3,939,577	3,382,092
Later than five years	49,205,119	59,773,486	38,385,671	39,509,068
	<u>62,637,612</u>	<u>65,670,360</u>	<u>42,582,199</u>	<u>43,429,950</u>
Less				
Unearned finance income	(20,055,413)	(22,240,410)		
Net investment in finance leases	<u>42,582,199</u>	<u>43,429,950</u>		
Non-current			42,325,248	42,891,160
Current			256,951	538,790
			<u>42,582,199</u>	<u>43,429,950</u>

12. CAPITAL

Capital was managed centrally during the year by the Santander UK plc Group. Disclosures relating to the capital management process can be found in the Santander UK plc Annual Report and Accounts. The Company does not have a non-centralised process for managing its own capital.

13. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The Company's immediate parent company is Alliance & Leicester Commercial 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. Alliance & Leicester plc is the parent undertaking of the smallest group of undertakings for which the 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.

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

13. RELATED PARTY TRANSACTIONS (continued)

Trading activities

Payable to related parties

	2009 £	2008 £
Current tax Group relief	(986,403)	71,389
Amounts owed to parent undertaking	<u>33,607,367</u>	<u>34,492,549</u>
	<u>32,620,964</u>	<u>34,563,938</u>

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

	2009 £	2008 £
Amount owed to other parent undertakings		
As at 1 January	34,563,938	34,934,366
Net movements	<u>(1,942,974)</u>	<u>(370,428)</u>
As at 31 December (note 17)	<u>32,620,964</u>	<u>34,563,938</u>
 Interest paid to parent undertakings	 <u>470,677</u>	 <u>1,882,927</u>

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

Key management compensation

As detailed in note 7 the Company had no employees in either the current or preceding year and the directors are remunerated through either Santander UK plc or Alliance & Leicester Commercial Finance plc therefore no key management compensation was paid by this Company

Administration expenses

During the current and preceding year the Company paid administrative cost recharges to parent undertakings of £43,893 (2008 £135,799)

14. CASH AND CASH EQUIVALENTS

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

	2009 £	2008 £
Cash at bank	<u>-</u>	<u>-</u>

SOVEREIGN HILLI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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15. ISSUED SHARE CAPITAL

	2009 No	2009 £	2008 No	2008 £
Issued and fully paid				
Ordinary shares of BM \$1 each	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>

All issued share capital is classified as equity

16. DEFERRED TAX LIABILITIES

	Balance sheet		Income statement	
	2009	2008	2009	2008
	£	£	£	£
Deferred tax liabilities				
Relating to depreciation	9,912,522	8,896,485	1,016,037	(8,237)
Relating to provisions	-	-	-	(20,976)
	<u>9,912,522</u>	<u>8,896,485</u>	<u>1,016,037</u>	<u>(29,213)</u>

The movement in the deferred tax account is as follows

	2009 £	2008 £
At 1 January	8,896,485	8,925,698
Income statement expense/(income) (note 9)	1,016,037	(29,213)
At 31 December	<u>9,912,522</u>	<u>8,896,485</u>

17. TRADE AND OTHER PAYABLES

	2009 £	2008 £
Payable to related parties	<u>32,620,964</u>	<u>34,563,938</u>