

**SANTANDER ASSET FINANCE (DECEMBER)
LIMITED**

**Registered in England and Wales
Company Number 01562865**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2022**

STRATEGIC REPORT

The Directors submit the strategic report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2022.

Business Review and principal activities

The principal activity of Santander Asset Finance (December) Limited (the "Company") is that of lessors and financiers of assets for the corporate sector.

On 5th June 2019, the Corporate and Commercial Banking Division of Santander UK Group Holdings plc announced the intention to cease writing new business through the Santander Asset Finance legal entities. Since then, the Company continued to service its existing book of business but ceased writing new business. On 1 March 2023, the trade and assets of the Company were transferred to the parent undertaking Santander Asset Finance plc at book values on that date through a Deed of Novation agreement. The Company ceased trading from this date.

Santander Asset Finance (December) Limited made a profit for the year of £3,543,551 (2021: £2,969,624). During the year, operating lease assets with a net book value of £11,865,540 (2021: £7,786,311) were sold primarily to customers for £9,455,733 (2021: £7,004,259). Proceeds were used to repay borrowings with parent undertaking, Santander Asset Finance plc. At 31 December 2022, the Company held net assets of £68,442,211 (2021: £64,898,660).

The Santander UK Group Holdings plc group (the "HoldCo Group") manages its operations on a divisional basis. For this reason, the Company's Directors believe that further 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 the divisions of Santander UK Group Holdings plc group, which include the Company, are discussed in the HoldCo Group's Annual Report which does not form part of this Report (the Company's Annual Report and Financial Statements).

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. Nothing in this Report should be construed as a profit forecast.

Climate change

The Santander UK group (including the Company) is implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and taking action to meet the expectations set by the PRA, Bank of England and FCA. This requires wide-ranging collaboration both across the HoldCo Group and externally to develop the tools and methodologies needed. As such, the HoldCo Group has adopted a unified approach and the relevant disclosures are set out in the Strategic report section of the Santander UK Group Holdings plc 2022 Annual Report.

S.172 Statement

The HoldCo Group is committed to ensuring that stakeholder interests continue to be embedded in all aspects of decision-making across the Group, at both Board and management level. The Santander Corporate Governance Office has taken steps to promote awareness and understanding of what is expected of Directors under section 172 of the Companies Act 2006. This includes briefing Directors on their statutory duties, as well as educating the business on ensuring the information they present to boards and management committees draws out the crucial points that will enable Directors to make fully informed decisions which factor in all relevant stakeholder impacts.

As a subsidiary of the Santander UK Group, the Company adheres to the policies and standards set by the Santander UK Group Holdings plc Board. To support efficiency and ensure a consistent approach, engagement with stakeholders on issues and decisions which have an impact across the wider Santander UK Group is conducted at UK-Group level. You can find out more about the engagement undertaken with key stakeholder groups during the year and how their interests were considered as part of the Santander UK Group Holdings plc Board's deliberations and decision making in the Santander UK Group Holdings plc 2022 Annual Report, which does not form part of this report.

The Directors of the Company are fully aware of their responsibilities under section 172 of the Companies Act 2006 and take all appropriate steps to ensure they consider the likely impact of their decisions in the long-term, as well as the interests of the Company's stakeholders. In discharging its responsibility for the overall oversight of the business, the Board has continued to pay due regard to its duty to promote the long-term success of the Company for the benefit of its shareholder, by ensuring its decisions are in accordance with the agreed Group strategy.

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in note 3 to the financial statements.

On behalf of the Board



S Affleck

Director

24 August 2023

Registered Office Address: Carlton Park, Narborough, Leicester LE19 0AL

REPORT OF THE DIRECTORS

The Directors submit their report together with the strategic report and audited financial statements for the year ended 31 December 2022.

Principal activities

The principal activities of Santander Asset Finance (December) Limited (the "Company") is that of lessors and financiers of assets for the corporate sector.

On 5th June 2019, the Corporate and Commercial Banking Division of Santander UK Group Holdings plc announced the intention to cease writing new business through the Santander Asset Finance legal entities. The Company continued to service its existing book of business but ceased writing new business during the course of 2019.

Results and dividends

The profit for the year amounted to £3,543,551 (2021: £2,969,624). The Directors do not recommend the payment of a final dividend (2021: £nil).

Subsequent events

On 1 March 2023, the trade and assets of the Company were transferred to the parent undertaking Santander Asset Finance plc at book values on that date through a Deed of Novation agreement. The Company ceased trading from this date.

Uncertain macroeconomic and geopolitical environment

In the past few years, a number of broader, more complex and uncertain risks have evolved which may present future headwinds. These include geopolitical tensions between regions across the world, in particular the current conflict in the Ukraine. This has impacted global energy prices and supply chains which added to inflationary pressures, as well as stretching household finances. These risks accelerate trends towards deglobalisation, and a reduction of variety of goods and services, causing prices to increase over the medium to long-term. These factors are also playing into increased localised political risk across the globe, including in the UK with a second new Prime Minister in 2022.

The Company is closely following these developments and the potential for any material impacts, which may need to be taken into consideration in its business plans and intends to take a coordinated approach with the other members of the Santander UK plc group.

Streamlined Energy and Carbon Reporting (SECR)

SECR is considered and managed at a HoldCo group level. Information on the annual energy use and associated greenhouse gas emissions of the Santander UK group (including the Company) is set out in the Strategic report and Directors' report sections of the Santander UK Group Holdings plc 2022 Annual Report.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

S Affleck
H Reindl
D Layhe (resigned 25 November 2022)

REPORT OF THE DIRECTORS (continued)

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 UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards 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 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 also 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.

Qualifying third party indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK Group Holdings plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities were qualifying third party indemnities. All of the indemnities were in force during the financial year and at the date of approval of the annual report and financial statements. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings plc.

Financial Instruments

The Company's risks are managed on a group level by Santander UK Group Holdings plc.

The financial risk management objectives and policies of the HoldCo Group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the HoldCo Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the HoldCo Group financial statements.

The class of asset most exposed to credit risk in the Company is trade and other receivables. Credit risk is mitigated by security over the borrower's assets and is monitored on a revolving basis and subject to an annual or more frequent review. All customer exposure is to corporate and small and medium sized businesses and all balances are secured by charges over assets being financed such as properties and vehicles.

The Company is financed by loans 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 Santander UK Group Holdings plc has confirmed that the funding facility, through Santander Asset Finance plc, will remain in place in the future for at least the period of 12 months from the date of signing the financial statements.

Further disclosures regarding principal and financial risk management objectives and policies and the Company's exposure to principal and financial risks can be found in note 3 to the financial statements.

REPORT OF THE DIRECTORS (continued)

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 the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, note 3 to the financial statements includes the Company's objectives, policies and processes for managing its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk and other risks.

On 1 March 2023, the trade and assets of the Company were transferred to the parent undertaking Santander Asset Finance plc at book values on that date through a Deed of Novation agreement. The Company ceased trading from this date. The Company has the ability to continue in existence for the foreseeable future and meet all of its obligations as they fall due. However, IAS 1 'Presentation of Financial Statements' requires that financial statements for any Company that has ceased to trade or where there is an intention for the Company to cease to trade in the next twelve months are prepared on an 'other than going concern' basis. Accordingly, the financial statements have been prepared on an 'other than going concern' basis. All the Company's assets and liabilities are classified as current assets and liabilities at the balance sheet date.

The financial statements do not include any provision for future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting year.

The Company is part of Santander UK Group Holdings plc group (the "HoldCo group"). The Company is reliant on other companies in the HoldCo group for a significant proportion of its funding. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Board of Santander UK Group Holdings plc has confirmed that it will provide funding to the Company for the foreseeable future. The Directors, having assessed the responses of the Directors of Santander UK Group Holdings plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of HoldCo group to continue as a going concern or its ability to continue with the current banking arrangements.

Statement of disclosure of information to auditors

Each of the Directors as at the date of approval of this report has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditors

In accordance with Sections 485 and 487 of the Companies Act 2006, PricewaterhouseCoopers LLP are re-appointed as auditors of the Company.

On behalf of the Board



S Affleck
Director

24 August 2023

Registered Office Address: Carlton Park, Narborough, Leicester LE19 0AL

Independent auditors' report to the members of Santander Asset Finance (December) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Santander Asset Finance (December) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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: Balance sheet as at 31 December 2022; income statement, statement of changes in equity and cash flow statement 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.

Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than going concern.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of The Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of The Directors for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Santander Asset Finance (December) Limited (continued)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of The Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to applicable tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Discussions with management and communication with those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud.
- Reviewing minutes of meetings of those charged with governance.
- Identifying and testing manual journals posted during the year which met our identified risk criteria.
- Performing audit procedures that may not have been predictable to management at the outset of the audit.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

Independent auditors' report to the members of Santander Asset Finance (December) Limited (continued)

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 obtained 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.

Jennifer Hale

Jennifer Hale (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 August 2023

INCOME STATEMENT

For the year ended 31 December 2022

	Note	2022 £	2021 £
Revenue	4	9,357,354	11,025,231
Cost of sales		(3,216,883)	(8,384,275)
GROSS PROFIT		6,140,471	2,640,956
Administrative expenses		(68,428)	(84,542)
Net gains from asset impairments	3	152,588	7,654
Loss on disposal of operating leases		(1,942,261)	(782,051)
Other gains and losses	5	1,214,448	-
PROFIT FROM OPERATIONS	5	5,496,818	1,782,017
Finance costs	6	(279,120)	(875,257)
PROFIT BEFORE TAX		5,217,698	906,760
Tax	7	(1,674,147)	2,062,864
PROFIT FOR THE YEAR		3,543,551	2,969,624

All profits during the year were generated from continuing operations.

There is no comprehensive income or expense in either the current or previous financial year other than the profit for the current and previous year as set out in the Income Statement. Therefore, a separate Statement of Comprehensive Income has not been presented.

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Issued share capital £	Retained earnings £	Total Equity £
Balance at 1 January 2022	100	64,898,560	64,898,660
Profit and total comprehensive income for the year	-	3,543,551	3,543,551
Balance at 31 December 2022	<u>100</u>	<u>68,442,111</u>	<u>68,442,211</u>

	Issued share capital £	Retained earnings £	Total Equity £
Balance at 1 January 2021	100	61,928,936	61,929,036
Profit and total comprehensive income for the year	-	2,969,624	2,969,624
Balance at 31 December 2021	<u>100</u>	<u>64,898,560</u>	<u>64,898,660</u>

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

BALANCE SHEET

As at 31 December 2022

	Note	2022 £	2021 £
ASSETS			
NON-CURRENT ASSETS			
Operating lease assets	8	-	20,396,249
Trade and other receivables	9	-	1,644,568
Deferred tax asset	14	-	8,689,278
		<hr/>	<hr/>
		-	30,730,095
CURRENT ASSETS			
Operating lease assets	8	5,313,826	-
Trade and other receivables	9	59,559,120	41,716,100
Deferred tax asset	14	7,022,293	-
Cash and cash equivalents		3,429,798	-
		<hr/>	<hr/>
		75,325,037	41,716,100
TOTAL ASSETS		<hr/> 75,325,037 <hr/>	<hr/> 72,446,195 <hr/>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	(112,872)	(784,742)
Corporation tax		(6,769,954)	(6,762,793)
		<hr/>	<hr/>
TOTAL LIABILITIES		(6,882,826) <hr/>	(7,547,535) <hr/>
NET CURRENT ASSETS		68,442,211	34,168,565
NET ASSETS		<hr/> 68,442,211 <hr/>	<hr/> 64,898,660 <hr/>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	100	100
Retained earnings		68,442,111	64,898,560
		<hr/>	<hr/>
TOTAL EQUITY		68,442,211 <hr/>	64,898,660 <hr/>

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

The financial statements on pages 8 to 27 were approved by the Board of Directors and signed on its behalf by:



S Affleck
Director

24 August 2023

CASH FLOW STATEMENT

For the year ended 31 December 2022

	Note	2022 £	2021 £
Profit for the year		3,543,551	2,969,624
NON-CASH ADJUSTMENTS			
Depreciation	8	3,216,883	7,972,566
Loss on disposal of operating lease assets		1,942,261	782,051
Decrease/ (increase) in deferred tax asset		1,666,985	(1,219,736)
Changes in operating assets and liabilities			
Decrease in trade and other receivables		6,250,457	9,645,535
(Decrease)/ increase in accruals		(615,942)	52,098
Decrease in corporation tax liability		7,161	(843,129)
		<hr/> 5,641,676 <hr/>	<hr/> 8,854,504 <hr/>
CASH FLOWS FROM OPERATING ACTIVITIES		16,011,356	19,359,009
Management charges paid to parent undertakings	12	-	(32,632)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES		<hr/> 16,011,356 <hr/>	<hr/> 19,326,377 <hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire operating lease assets		-	(3,581,477)
Receipts from sale of operating lease assets		9,923,279	7,004,259
NET CASH FLOWS GENERATED FROM INVESTING ACTIVITIES		<hr/> 9,923,279 <hr/>	<hr/> 3,422,782 <hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash advances to parent undertakings		(22,225,716)	(21,873,902)
Interest paid to parent undertakings	6	(279,121)	(875,257)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		<hr/> (22,504,837) <hr/>	<hr/> (22,749,159) <hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,429,798	-
Cash and cash equivalents at start of year		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		<hr/> 3,429,798 <hr/> <hr/>	<hr/> - <hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES

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

General information

The Company is a private Company limited by shares, incorporated in the United Kingdom and registered in England and Wales. It is part of Santander UK Group Holdings plc, whose ultimate parent is Banco Santander SA. The registered office address of the Company is Carlton Park, Narborough, Leicester LE19 0AL. These financial statements are prepared under the Companies Act 2006.

Basis of preparation

The Company's financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS). The financial statements have been prepared using the historical cost convention. The functional and presentation currency of the Company is Sterling.

Going concern

On 1 March 2023, the trade and assets of the Company were transferred to the parent undertaking Santander Asset Finance plc at book values on that date through a Deed of Novation agreement. The Company ceased trading from this date. The Company has the ability to continue in existence for the foreseeable future and meet all of its obligations as they fall due. However, IAS 1 'Presentation of Financial Statements' requires that financial statements for any Company that has ceased to trade or where there is an intention for the Company to be liquidated in the next twelve months are prepared on an 'other than going concern' basis. Accordingly, the financial statements have been prepared on an 'other than going concern' basis as disclosed in the Directors' statement of going concern on page 4. As a result, all remaining assets and liabilities are classified as current assets and liabilities and presented on a net realisable value basis at the balance sheet date.

The financial statements do not include any provisions for the future costs of terminating the business of the company except to the extent that such costs were committed at the balance sheet date. This is due to future costs being borne by Santander UK Group Holdings Plc rather than the company itself. The directors do however believe that the Company has adequate resources to meet its ongoing liabilities as they fall due.

Recent accounting developments

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB amended IAS 1 'Presentation of Financial Statements' to require entities to disclose their material rather than their significant accounting policies. To support this amendment, the IASB also amended IFRS Practice Statement 2 'Making Materiality Judgements' to provide guidance on how to apply the concept of materiality. The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments have been applied in preparing these financial statements and, consequently, only material accounting policy information is disclosed.

Future accounting developments

At 31 December 2022, for the HoldCo Group, there were no other significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective, or which have otherwise not been early adopted where permitted.

Material accounting policy information

The following material accounting policies have been applied in preparing these financial statements. Those material accounting policies which involves the application of judgements or accounting estimates that are determined to be critical to the preparation of these financial statements are set out in the section headed "Critical accounting estimates and areas of significant management judgement".

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 includes interest income from finance lease receivables and rental income from operating leases as well as income from the disposal of recovered assets which are subject to lease arrangements. Revenue from operating and finance leases is recognised in accordance with IFRS 16 *Leases*.

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

The Company's parent, Santander Asset Finance plc, originates business and administers customer lease agreements on its behalf. In accordance with the agency agreement between the Company and its parent, the Company acts as the principal as it controls the assets relating to these lease agreements, assumes all risks associated with them and bears primary responsibility in fulfilling the promise to lease the underlying assets to its customers. The Company recognises all revenue earned in relation to the lease agreements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES (continued)**Finance costs**

Interest expense on financial liabilities are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments over the contractual life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument. The calculation includes all amounts paid or received by the Company that are an integral part of the overall borrowing costs, direct incremental transaction costs related to the financial instrument and all other premiums or discounts.

Taxation

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 profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit also includes items that are taxable or deductible which are not included in "profit before tax". The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Financial Instruments**a) Initial recognition and measurement**

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost.

b) Financial assets and liabilities*Classification and subsequent measurement*

The Company classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

At the balance sheet date, financial assets and financial liabilities were measured at amortised cost.

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Solely Payments of Principal and Interest ("SPPI")

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Based on these factors, the Company classifies its debt instruments into the following measurement category:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in Finance income within 'Revenue' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

The Company's trade and other receivables meet the conditions to be measured at amortised cost and comprise finance lease balances and other receivables.

Finance Leases

In a finance lease, the lessor transfers substantially all the risks and rewards of ownership of an asset to the lessee. It is treated as a loan made to the lessee to finance the purchase of the asset.

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. The rate of interest is the rate implicit in the lease.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

c) Impairment of debt instrument financial assets

Expected credit losses are recognised on all financial assets at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For more on how ECL is calculated see the Credit risk section in note 3.

Write-off

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. A write-off is only made when all internal avenues of collecting the debt have been exhausted. The write-off policy is regularly reviewed. Write-offs are charged against previously established loss allowances.

Financial liabilities

The financial liabilities of the Company comprise trade and other payables including amounts owed to group undertakings which are classified and subsequently measured at amortised cost. Interest on the balances is calculated using the effective interest rate and reflected in the 'finance costs' line within the income statement.

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 less than three months' maturity from the date of acquisition.

Operating Leases

An operating lease is a lease under which substantially all the risks and rewards of ownership of an asset are not transferred to the lessee. Operating lease rental income is recognised in equal instalments over the period of the leases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES (continued)

Operating lease assets and depreciation

The cost of additions to operating lease assets is capitalised. Classes of operating lease assets are depreciated on a straight-line basis over their useful life after taking into account anticipated residual values as follows:

Operating lease assets - 3 to 10 years

The carrying value of the operating lease assets are derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of operating lease assets is included in the profit or loss when the item is derecognised.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgements are considered important to the portrayal of the Company's financial condition:

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 impairment losses are charged to the income statement.

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

Key areas of judgement in accounting estimates

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

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

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

Sensitivity of ECL allowance

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

2022	Weighted £	Upside 1 £	Base Case £	Downside 1 £	Downside 2 £	Downside 3 £
Exposure	3,725,590	3,725,590	3,725,590	3,725,590	3,725,590	3,725,590
ECL	24,958	23,818	23,374	25,275	30,659	27,492
Variance	7%	2%	0%	8%	31%	18%

2021	Weighted £	Upside 1 £	Base Case £	Downside 1 £	Downside 2 £	Downside 3 £
Exposure	10,125,654	10,125,654	10,125,654	10,125,654	10,125,654	10,125,654
ECL	183,388	165,179	172,983	182,521	241,916	247,119
Variance	6%	-5%	0%	6%	40%	43%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

a) Governance framework

The Company manages its risk in line with the central risk management function of the HoldCo group whose Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the HoldCo group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the HoldCo 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 HoldCo group's strategic objectives.

Authority flows from the HoldCo Board to the Chief Executive Officer and from him to specific individuals. Formal committees are maintained for effective management. 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.

The HoldCo group has three tiers of risk governance – risk management, risk control and risk assurance. The first tier of risk governance – risk management is provided by the HoldCo group Board which approves HoldCo group's Risk Appetite for each of the risks below, in consultation with Santander UK plc as appropriate, and approves the strategy for managing risk and is responsible for the HoldCo group's system of internal control. Within this tier, there is a process for transaction review and approval within certain thresholds, discharged by the Credit Approvals Committee and the Investment Approvals Committee. Transactions reviewed which exceed the threshold limits set are subject to prior review by HoldCo group Risk before final approval by the Executive Risk Control Committee.

The second tier of risk governance – risk control is provided by the HoldCo Board independently supported by the Risk Division. The role of the Chief Risk Officer and Risk Division include development of risk measurement methodologies, risk approval, risk monitoring, risk reporting and escalation of risk issues in line with the relevant risk policies for all risks in the HoldCo group. The HoldCo group's central risk function provides services to the Company, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which ensure compliance with HoldCo group policies and limits, including risk policies, limits and parameters, an approval process relating to transactions that exceed local limits and the systematic review of exposures to large clients, sectors, geographical areas and different risk types.

The third tier of risk governance – risk assurance, provides independent objective assurance on the effectiveness of the management and control of risk across the HoldCo group. This is provided through the Non-Executive Directors, the Board Audit Committee, the Board Risk Committee and the Internal Audit function.

b) 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 HoldCo 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 HoldCo group. The primary purpose of the framework is to define and articulate the HoldCo 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 HoldCo group's risk committee and Board of Directors.

c) Financial risks

1) Credit risk

Credit risk management

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Credit risk management (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.

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

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL. More details can be found in the Annual Report of the intermediate parent company (Santander UK plc). For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see note 1 to the Financial Statements.
Non-Performing Loans (NPLs)	The Company uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Company doubt they can keep up with their payments. There are differences between NPL and Stage 3, details of which details can be found in the Annual Report of the intermediate parent company (Santander UK plc). The Company continued to monitor NPLs as a key metric in 2021.

Other metrics

The Company also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration.

Significant Increase in Credit Risk (SICR)

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

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

Criteria applicable to stage 2

Quantitative criteria

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

The quantitative criteria used was 30 bps which is an absolute increase in lifetime PD since initial recognition. We also apply a relative threshold of 100% (doubling the PD) across all portfolios.

Qualitative criteria

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Credit risk management (continued)

Criteria applicable to stage 3

Definition of default (Credit impaired)

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

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

Backstop criteria

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

Multiple economic scenarios and probability weights

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

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

Sensitivity of ECL allowance

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

Measuring ECL

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

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

Maximum exposure to credit risk

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

	Balance sheet asset		
	Gross amounts	Loss allowances	Net exposure
2022	£	£	£
Finance lease receivables (within trade and other receivables)	3,722,609	(20,395)	3,702,214
Operating lease assets (future undiscounted lease payments)	5,313,826	-	5,313,826
Total	9,036,435	(20,395)	9,016,040

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Maximum exposure to credit risk (continued)

	Balance sheet asset		
	Gross amounts £	Loss allowances £	Net exposure £
2021			
Finance leases receivables (within trade and other receivables)	10,125,654	(172,983)	9,952,671
Operating lease assets (future undiscounted lease payments)	12,461,211	-	12,461,211
Total	22,586,865	(172,983)	22,413,882

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Off-balance sheet exposures are guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that we would have to pay if the guarantees were called on. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the facility, the maximum exposure is the total amount of the commitment.

Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

The class of financial instruments that is most exposed to credit risk in the Company is finance agreements comprising net investment in finance leases (note 10) and operating lease assets (note 8).

	2022 £	2021 £
Finance lease receivables (within trade and other receivables)	3,702,214	9,952,671
Operating lease assets (future undiscounted lease payments)	5,313,826	12,461,211
Total	9,016,040	22,413,882

For the Company, 100% (2021: 100%) of the balances are secured. The main types of security are charges over assets being financed such as property and vehicles. All exposures are with companies in the commercial and public sectors.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December.

	31 December 2022				31 December 2021			
	Stage 1 £	Stage 2 £	Stage 3 £	Total £	Stage 1 £	Stage 2 £	Stage 3 £	Total £
Exposures								
Finance agreements	3,344,280	378,329	-	3,722,609	8,517,344	1,220,795	387,515	10,125,654
Total exposures	3,344,280	378,329	-	3,722,609	8,517,344	1,220,795	387,515	10,125,654
ECL								
Finance agreements	(14,425)	(5,970)	-	(20,395)	(17,849)	(15,989)	(139,145)	(172,983)
Total ECL	(14,425)	(5,970)	-	(20,395)	(17,849)	(15,989)	(139,145)	(172,983)
Total net exposures – finance agreements	3,329,855	372,359	-	3,702,214	8,499,495	1,204,806	248,370	9,952,671

Movements in ECL provision are set out below:

	Non-credit impaired		Credit impaired	Total £
	Stage 1 Subject to 12-month ECL £	Stage 2 Subject to lifetime ECL £	Stage 3 Subject to lifetime ECL £	
At 1 January 2022	(17,849)	(15,989)	(139,145)	(172,983)
Income statement charge for the year	(14,425)	(8,951)	-	(23,376)
Income statement release for the year	17,849	2,981	155,134	175,964
Net impairment reversal/ (charge)	3,424	(5,970)	155,134	152,588
Reclassifications	-	15,989	(15,989)	-
At 31 December 2022	(14,425)	(5,970)	-	(20,395)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

1) Credit risk - Credit exposures and corresponding ECL (continued)

	Non-credit impaired		Credit impaired	Total
	Stage 1 Subject to 12- month ECL £	Stage 2 Subject to lifetime ECL £	Stage 3 Subject to lifetime ECL £	
At 1 January 2021	(22,095)	(45,169)	(280,660)	(347,924)
Income statement charge for the year	(8,543)	(14,352)	(167,287)	(190,182)
Income statement release for the year	47,711	8,610	141,515	197,836
Net impairment reversal/ (charge)	39,168	(5,742)	(25,772)	7,654
Reclassifications	-	-	167,287	167,287
Transfers to 12-month ECL	(34,922)	34,922	-	-
At 31 December 2021	(17,849)	(15,989)	(139,145)	(172,983)

2) Market risk

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

Market risks arising in the operations of the Company which are part of Santander UK Group Holdings plc's Corporate Banking division, are substantially transferred from the originating business to Asset and Liability Management ("ALM") within Santander UK Group Holdings plc's group Infrastructure, where they can be managed in conjunction with exposures arising from the funding, liquidity or capital management activities of ALM.

i) Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve. The exposure in this area is hedged with Santander UK Group Holdings plc's Santander Corporate & Investment Banking ("SCIB") division using fixed rate loans and other appropriate instruments. Value at Risk (VaR) is a measurement of the maximum amount likely to be lost from existing risk positions as a result of movement in market rates and prices. This is calculated over a particular period and at a particular confidence level.

SCIB uses a variance-covariance VaR model, based on historical volatility and correlation data, to a 99% confidence level over a one month holding period time horizon. Although it is a useful tool in measuring risk, VaR does contain some limitations:

1. It does not accurately measure extreme events.
2. The use of a 99% confidence level does not by definition include losses beyond this level of confidence.
3. It relies on the historical volatility and correlation data being similar to the volatility and correlation positions going forward.

Funds received from customers are lent on to Group Infrastructure on matching terms as regards interest rate re-pricing and maturity. Similarly, loans are funded through matching borrowings from Group Infrastructure. Retained market risk exposure is minimal and is managed within limits approved by the Head of Wholesale Risk.

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 (Santander Asset Finance plc).

3) Liquidity risk

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

The Company is dependent on loans from its immediate parent undertaking. All liabilities are repayable on demand.

The day to day management of liquidity is the responsibility of ALM, which provides funding to and takes surplus funds from the Company as required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

3) Liquidity risk – Maturities of financial liabilities

The following tables analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

They have been drawn on the discounted contractual maturities of financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

Financial liabilities are measured at amortised cost.

2022	Repayable on demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	£	£	£	£	
Accrued liabilities	112,872	-	-	-	112,872
Total financial liabilities	112,872	-	-	-	112,872

2021	Repayable on demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	£	£	£	£	£
Due to group undertakings	55,929	-	-	-	55,929
Accrued liabilities	728,813	-	-	-	728,813
Total financial liabilities	784,742	-	-	-	784,742

Financial instruments

The table below summarises the classification of the Company's assets and liabilities as at 31 December 2022 and 31 December 2021 at their carrying value:

	2022	2021
	£	£
Financial assets		
Cash and cash equivalents	3,429,798	-
Finance leases (note 10)	3,702,214	9,952,671
Amounts owed by related parties (note 12)	55,856,906	33,407,997
Total financial assets	62,988,918	43,360,668
Non-financial assets	12,336,119	29,085,527
Total assets	75,325,037	72,446,195
Financial liabilities	112,872	784,742
Non-financial liabilities	6,769,954	6,762,793
Total liabilities	6,882,826	7,547,535

Fair values of financial assets and liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Fair value hierarchy

The Company categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. The Company has no assets or liabilities measured at fair value that are classified as Level 1.

Level 2: Quoted prices in non-active markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. The Company has no assets or liabilities measured at fair value that are classified as Level 2.

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. Level 3 positions include finance lease receivables.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. RISK MANAGEMENT (continued)

c) Financial risks (continued)

Fair value of financial instruments carried at amortised cost

The following table summarises the carrying amount and fair values as at 31 December 2022 and 2021 of those financial instruments carried at amortised cost. It does not include fair value information for financial assets and financial liabilities carried at amortised cost if the carrying amount is a reasonable approximation of fair value.

	2022 Carrying value £	2022 Fair Value £	2021 Carrying Value £	2021 Fair Value £
Financial assets				
Net investment in finance leases (Note 10)	3,702,214	3,951,826	9,952,671	9,445,140

The fair value of financial assets and financial liabilities is approximately equal to their carrying amount except for finance leases where the fair value has been measured as the gross lease receivable less the provision for uncollectible minimum lease payments.

The fair value of floating rate assets is approximately equal to their carrying amount.

4. REVENUE

Lease income from lease contracts in which the Company acts as lessor is provided in the following table.

	2022 £	2021 £
Finance lease:		
Finance income on the net investment in the lease	460,997	1,785,575
Operating leases:		
Net income from operating lease assets	8,896,357	9,239,656
Total revenue	9,357,354	11,025,231

For operating lease assets, there is no income relating to variable lease payments that is not dependant on an index or rate as set out in the terms of the lease.

5. PROFIT FROM OPERATIONS

Profit from operations is stated after charging / (crediting) the following:

	2022 £	2021 £
Depreciation of operating lease assets	3,216,883	7,972,566
Losses on disposal of operating lease assets	1,942,261	782,051
Recoveries from asset impairments	(175,964)	(197,836)
Losses from asset impairments	23,376	22,895
Other gains and losses	(1,214,448)	-

The depreciation of operating lease assets is included in cost of sales.

Directors' emoluments and interests

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company. No emoluments were paid by the Company to the Directors during the year (2021: £nil).

Auditors' remuneration

The audit fee payable to the Company's auditors for the audit of the Company's annual financial statements for the current year is £50,800 (2021: £43,260).

Fees payable to the auditors for non-audit services were nil (2021: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. PROFIT FROM OPERATIONS (continued)

Particulars of employees

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

6. FINANCE COSTS

	2022 £	2021 £
Amounts payable to immediate parent undertakings	<u>279,120</u>	<u>875,257</u>

7. TAX

	2022 £	2021 £
Current tax:		
UK corporation tax on profit of the year	262,816	(843,128)
Adjustments in respect of prior years	(255,654)	-
Total current tax	<u>7,162</u>	<u>(843,128)</u>
Deferred tax:		
Origination and reversal of temporary differences	728,546	991,149
Change in rate of UK corporation tax	230,068	(2,085,426)
Adjustments in respect of prior years	708,371	(125,459)
Total deferred tax	<u>1,666,985</u>	<u>(1,219,736)</u>
Tax charge/ (credit) on profit before tax	<u>1,674,147</u>	<u>(2,062,864)</u>

UK corporation tax is calculated at 19% (2021: 19%) of the estimated assessable profits for the year.

The UK government announced in its budget on 3 March 2021 that it would increase the main rate of corporation tax by 6% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021 and, as a result, the effect has been reflected in the deferred tax position included in these financial statements for both the 2021 and 2022 balance sheet dates.

The tax on the Company's profit before tax differs from (2021: differs from) the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2022 £	2021 £
Profit before tax	<u>5,217,698</u>	<u>906,760</u>
Tax calculated at a rate of 19% (2021: 19%)	991,363	172,284
Non-deductible expenses	-	(24,262)
Adjustment to prior year provisions	452,716	(125,460)
Effect of change in tax rate on deferred tax provision	230,068	(2,085,426)
Tax charge/ (credit) on profit before tax	<u>1,674,147</u>	<u>(2,062,864)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

8. OPERATING LEASE ASSETS

The Company leases assets which are classified as operating leases because they do not transfer substantially all of the risks and rewards incidental to ownership of the assets. The Company enters into operating lease arrangements with customers in the commercial and public sectors. Refer to the accounting policy in note 1.

	2022 £	2021 £
Cost		
At 1 January	40,481,874	59,552,254
Additions	-	3,581,477
Transfers	83,092	-
Disposals	(29,012,284)	(22,651,857)
At 31 December	<u>11,552,682</u>	<u>40,481,874</u>
Accumulated Depreciation		
At 1 January	20,085,625	26,978,605
Charge for year	3,216,883	7,972,566
Transfers	83,092	-
Disposals	(17,146,744)	(14,865,546)
At 31 December	<u>6,238,856</u>	<u>20,085,625</u>
Net book value		
At 1 January	<u>20,396,249</u>	<u>32,573,649</u>
At 31 December	<u>5,313,826</u>	<u>20,396,249</u>

The loss on disposal of operating lease assets was £1,942,261 (2021: loss of £782,051).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the prior year reporting date. There is no similar disclosure for the current year as the leases were transferred to the parent undertaking on 1 March 2023:

	2021 £
Within 1 year	6,211,137
One to two years	4,088,168
Two to three years	1,448,650
Three to four years	561,293
Four to five years	151,963
More than 5 years	-
Total undiscounted lease payments	<u>12,461,211</u>

9. TRADE AND OTHER RECEIVABLES

	2022 £	2021 £
Non-current		
Finance lease receivables (note 10)	-	1,644,568
Current		
Finance lease receivables (note 10)	3,702,214	8,308,103
Amounts owed by related undertakings (note 12)	55,856,906	33,407,997
	<u>59,559,120</u>	<u>41,716,100</u>
Total trade and other receivables	<u>59,559,120</u>	<u>43,360,668</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10. FINANCE LEASES

Finance leases as lessor:

The Company enters into finance lease arrangements with customers in the commercial and public sectors. The following table sets out a maturity analysis of finance lease receivables, showing the undiscounted lease payments to be received after the reporting date.

On 1 March 2023, the trade and assets of the Company were transferred to the parent undertaking Santander Asset Finance plc at book values on that date through a Deed of Novation agreement. The maturity profile for the current year is wholly classified as due less than one year.

	<i>Minimum lease payments</i>		<i>Present value of minimum lease payments</i>	
	2022	2021	2022	2021
	£	£	£	£
Less than one year	3,972,219	8,065,439	3,702,214	8,308,103
One to two years	-	1,116,584	-	1,187,998
Two to three years	-	360,376	-	383,833
Three to four years	-	74,120	-	71,546
Four to five years	-	1,604	-	1,191
Total gross undiscounted lease payments receivable	3,972,219	9,618,123	3,702,214	9,952,671
Less:				
Unearned finance income	(249,610)	(424,654)		
Unguaranteed residual value accruing to the benefit of the lessor	-	932,185		
Provision for uncollectible minimum lease payments	(20,395)	(172,983)		
Finance lease receivables	3,702,214	9,952,671		
Non-current			-	1,644,568
Current			3,702,214	8,308,103
			3,702,214	9,952,671

11. CAPITAL

The Company's intermediate UK parent company (Santander UK plc) adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the HoldCo Group. Disclosures relating to the Group's capital management can be found in the Santander UK Group Holdings plc Annual Report which does not form part of this Report.

12. RELATED PARTY TRANSACTIONS

The Company entered into transactions with the parent company as shown in the table below:

Receivable from group undertakings	2022	2021
	£	£
Santander Asset Finance plc	55,856,906	33,407,997
	55,856,906	33,407,997
Payable to group undertakings	2022	2021
	£	£
Santander UK plc	-	55,929
	-	55,929

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. RELATED PARTY TRANSACTIONS (continued)

	2022 £	2021 £
Amount (receivable from)/ owed to group undertakings		
As at 1 January	(33,352,068)	(10,570,278)
Net movements	(22,504,838)	(22,781,790)
As at 31 December	<u>(55,856,906)</u>	<u>(33,352,068)</u>
Interest paid to parent undertaking (note 6)	<u>279,120</u>	<u>875,257</u>

Interest paid to parent undertaking Santander Asset Finance plc is charged at a fixed interest rate of 1.64% and is payable on outstanding customer balances. Loans with Santander Asset Finance plc are repayable/ receivable on demand.

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 the parent undertaking of £7,468 (2021: £32,630).

13. TRADE AND OTHER PAYABLES

	2022 £	2021 £
Current		
Payable to group undertakings (note 12)	-	55,929
Accrued liabilities	112,872	728,813
	<u>112,872</u>	<u>784,742</u>

The fair value approximates the carrying value of the liabilities.

14. DEFERRED TAX ASSET

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:

	2022 £	2021 £
At 1 January	8,689,278	7,469,542
Income statement (charge)/ credit (note 7)	(1,666,985)	1,219,736
At 31 December	<u>7,022,293</u>	<u>8,689,278</u>

Deferred tax assets are attributable to the following items:

	Balance Sheet		Income Statement	
	2022 £	2021 £	2022 £	2021 £
Deferred tax assets				
Accelerated book depreciation	6,590,177	7,393,303	(803,125)	913,970
IFRS 9 transitional adjustments	34,662	41,594	(6,932)	4,714
Other temporary differences	397,454	1,254,381	(856,928)	301,052
	<u>7,022,293</u>	<u>8,689,278</u>	<u>(1,666,985)</u>	<u>1,219,736</u>

The deferred tax assets scheduled above have been recognised in the Company on the basis that sufficient future taxable profits are forecast within the HoldCo Group, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

Deferred tax balances are expected to be settled within (2021: more than) twelve months after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15. ISSUED SHARE CAPITAL

	2022 No	2022 £	2021 No	2021 £
Authorised, issued and fully paid				
Ordinary shares of £1 each	100	100	100	100

All issued share capital is fully paid and is classified as equity.

16. CONTINGENT LIABILITIES

Capital support deed

At 31 December 2022, Santander UK plc (RFB), Cater Allen Limited, Santander ISA Managers Limited and certain other non-regulated subsidiaries within the RFB, including the Company, were party to the RFB Sub-Group Capital Support Deed dated 17 December 2021. These parties were permitted by the PRA to form a core UK group, as defined in the PRA Rulebook, a permission which will expire on 31 December 2024. Exposures of each of the regulated entities to other members of the core UK group were exempt from large exposure limits that would otherwise apply. These intra-group exposures were risk-weighted at 0% and excluded from leverage exposure on a solo as well as consolidated basis. The purpose the 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 RFB Sub-Group in the event that one of the regulated parties breached or was at risk of breaching its capital resources or risk concentrations requirements.

17. PARENT UNDERTAKING AND CONTROLLING PARTY

Santander Asset Finance (December) Limited is domiciled in the United Kingdom.

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

The Company is a wholly owned subsidiary of Santander UK Group Holdings plc, a company incorporated in the United Kingdom and registered in England and Wales. Santander UK Group Holdings plc is the highest parent undertaking in the United Kingdom.

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

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

18. SUBSEQUENT EVENTS

On 1 March 2023, the trade and assets of the Company were transferred to the parent undertaking Santander Asset Finance plc at book values on that date through a Deed of Novation agreement. The Company ceased trading from this date.