SANTANDER CONSUMER (UK) PLC

Registered in England and Wales
No: 02248870

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2020

STRATEGIC REPORT

The Directors submit this Strategic report together with their Directors' report and the audited financial statements for the year ended 31 December 2020.

Fair review of the Company's Business

The principal activity of Santander Consumer (UK) plc, (the Company) is the provision of retail finance, both secured and unsecured, including instalment credit facilities, contract hire and finance leasing products to retail customers for the purchase of motor vehicles and equipment. For accounting purposes, 'finance leasing' includes Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Further details are in Finance Lease Receivables note 20. Wholesale funding facilities are also provided to dealers.

The Management has considered the consequences of Covid-19. In 2020 the Company offered payment deferrals to its retail and contract hire customers following the FCA guidance issued in mid-2020. The Company also provided support to the dealership network by offering extended repayment terms. The Company has adapted its IFRS 9 models to reflect the increased risk of default due to the pandemic.

Key performance indicators are summarised below:

Key Performance Indicators		FY 2020	FY 2019	Difference
Total Manufacturers (excluding the Joint Venture entities)	Units	9	9	-
Retail				
New Vehicles				
Total Advances	£m	£828.6	£879.0	-£50.4
	Units	40,194	45,571	-5,377
Average Advance	£	£20,615	£19,289	£1,326
Used Vehicles				
Total Advances	£m	£1,336.7	£1,411.6	-£74.9
	Units	97,476	113,412	-15,936
Average Advance	£	£13,713	£12,447	£1,266
Contract hire				
Additions	£m	£184.6	£225.4	-£40.8
	Units	7,563	9,742	-2,179
Profit Before Tax	£m	£128.0	£107.5	£20.5

The Company's Key Performance Indicators above relating to new business advances are shown split between new and used vehicles. The finance advances linked to new vehicles are primarily driven by the manufacturer arrangements that we have in place. The Company has a mix of white label and joint venture agreements with car and motorbike manufacturers including Mazda, Volvo, MG Cars, KTM, Husqvarna, McLaren, Caterham Cars, Yamaha, BRP, Peugeot, Citroen, Hyundai and Kia cars. In total the Company, has 9 white label agreements (2019: 9) and three joint ventures (2019:2).

For new vehicle finance, the average advance was relatively stable at £20,615 with a small increase on the prior year average advance of £1,326. In 2020, the new vehicle finance was impacted by a number of dealership closures linked to various pandemic lockdowns. As a result of this new vehicle finance for retail saw a reduction in advances of £50.4m and contract hire was similarly impacted with an overall reduction of £40.8m. At a combined level, new car finance is lower in 2020 than 2019, due to the difficult trading conditions because of the pandemic. There was also some uncertainty linked to Brexit and concerns raised around diesel cars.

The Company continues to develop its core used car business, whilst continuing to seek further dealer and manufacturer partnerships. Used car finance shows a reduction in total volumes of £74.9m, this was again linked to the pandemic.

The Company has two active Joint Ventures: Hyundai Capital UK Limited and PSA Finance UK Limited. The joint venture entity, Hyundai Capital UK Limited commenced trading in July 2012; this entity is consolidated on an equity basis in the accounts of Santander UK plc Group (the "Group") as the Company does not have control. The joint venture agreement with Banque PSA started in February 2015. The Company has control over PSA Finance UK Limited and for accounting purposes this entity is consolidated at a Group level and a minority adjustment is made to adjust for the profits attributable to the joint venture partner. The Company has entered into a new joint venture with Volvo and further information can be found in note 19. Together with its Joint Ventures, the Company was a leading Independent Finance Provider for new and used Motor Vehicles in the United Kingdom in 2020.

Profit before tax has increased by £20.5m year on year. The Statement of Comprehensive Income on page10 provides the detail to support the profit before tax of £128.0m (2019: £107.5m).

The 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 plc, which include the Company, are discussed in the Group's Annual Report which does not form part of this Report.

STRATEGIC REPORT *(continued)*

The Company also continues to invest in smaller internal projects to improve products, services and systems. The Company is funded from its parent Santander UK Plc and from securitisations. The Company will continue to seek to diversify its funding sources, by entering into securitisation transactions, where this is appropriate.

The Company is involved in Global Risk Strategy Projects, including the Internal Ratings Based (IRB) Approach, group projects such as the new definition of default and accounting and risk projects. These projects have differing timelines, some are deliverable in 2021 and others such as the IRB Approach are longer term and we will continue to work on them over the next few years. The Company will launch its new advertising platform, Your Red Car in 2021.

Section 172 Statement

The Company is wholly owned by Santander UK plc (the Santander UK Group's ring-fenced bank) and as such will always operate to the standards set by the Santander UK Group. Any decision taken will be aligned to the strategy of the wider Santander UK Group (particularly the ring-fenced bank) and made in the best interest of all stakeholders. Impacts of any decision will be determined through ongoing risk assessment conducted with all relevant stakeholders.

The Company reviews group policies to ensure that they are suitable for the entity prior to the adoption.

Climate change

The Company is committed to support the transition to a low-carbon economy and tackle climate change.

The Company, being wholly owned by Santander UK plc, will always operate to the standards set by the Santander UK Group. During 2020 the Board and Executive Committee of Santander UK plc undertook a deep dive on climate change, with external expert support, and agreed to further increase the Group's ambition to address the urgent need for climate action. The Group is working hard to manage climate-related financial risks in its portfolio, to support customers to transition by developing green products and services and reduce the emissions within its operations and supply chain. Supporting renewables must be complemented by a reduction in the carbon emissions across the Group's wider lending portfolio which is why the Group have tightened its policies on lending to carbon-intensive sectors. As a result, the Group will not provide financial products or services to new coal fired power plants worldwide, or oil and gas drilling projects north of the Arctic Circle.

The Group is addressing climate change related risk issues through ongoing engagement across its business and support functions, coordinated and led by the Group's Risk Division and plans to fully embed climate change risk assessment in risk management processes.

The Group actively contributes to Banco Santander's newly-established sustainable finance working groups, which draw on global expertise to identify new business opportunities in renewable energy, green buildings, clean mobility and sustainable agriculture. The Group delivered a range of training across the bank during the year.

The Group is committed to the objectives of the Paris Agreement and its ambition is to help the UK transition to a low-carbon economy and tackle climate change and is a leader in financing renewable energy projects. In 2020, the Group was the number one lender to the renewable energy sector by deal number and number two by value.

Climate change is integrated into the Group's risk framework. The Group has introduced minimum standards requiring each business area, including the Company, to consider the risks posed by climate change. The risk framework outlines responsibility to "embed the approach to managing the financial and strategic risks associated with climate change." Banco Santander provides guidance and tools to analyse potential credit risk impacts relating to climate change, including identifying, assessing, managing and reporting climate-related risks. The Group also adopted the general sustainability policy from Banco Santander, which now incorporates the previously separate climate change policy. All UK processes and policies have been updated to reflect this.

Banco Santander has increased the number of climate-related performance metrics it discloses. These include market position for number of deals, total financing of most relevant climate financial services, and emissions avoided by financing renewables. Details can be found in the Banco Santander Climate Finance Report. Details of our operational carbon emissions can be found on page 37 or page 10 of the Santander UK Group Holding plc ESG Supplement 2020.

The Company is currently engaged in the Santander UK group's submission to the Bank of England's Biennial Exploratory Scenario on Climate Change (CBES). It has also instigated a Climate Action and Sustainability Forum to monitor its exposure to Climate Risk. Our manufacturing partners are actively engaged in the development of energy efficient vehicles. The UK Government's aim is to stop the sale of new diesel and petrol cars by 2030.

STRATEGIC REPORT *(continued)*

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.

On behalf of the Board

Diane Roberts
Director
25th June 2021

Registered Office Address: Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2020.

Principal activities

The principal activity of Santander Consumer (UK) plc, (the Company) is the provision of retail finance, both secured and unsecured, including instalment credit facilities and finance leasing products to retail customers for the purchase of motor vehicles and equipment. Wholesale funding facilities are also provided to dealers, this ensures the dealers have sufficient inventories of vehicles to sell and hopefully for the Company to then offer customers finance facilities. For accounting purposes, 'finance leasing' includes Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Further details are in Finance Lease Receivables note 20 and Loans and Receivables note 21.

Likely future developments

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

Results and dividends

The profit for the year amounted to £106,565,000 (2019: profit £88,254,000).

The Company paid no interim dividends during the year (2019: £nil). The Directors do not recommend the payment of a final dividend (2019: £nil).

Post balance sheet events

Please refer to note 35 regarding the new joint venture with Volvo Car Corporation.

Directors

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

J Anton San Pablo	
AR Goldhagen	
VT Hill	(Chief Executive Officer)
B Montalvo Wilmot	
DE Roberts	
ME Staveley	(resigned 6 May 2021)
R Attar-Zadeh	(resigned 17 July 2020)
MS Khela	(appointed 17 July 2020)
C Palmer	(appointed 10 May 2021)

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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, notes 3, 20, 21, 24 and 26 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to operational risk, credit risk, market risk, liquidity risk, conduct risk and residual value risk.

The management has considered the consequences of Covid-19 and its impact on the business and is of the opinion that Covid-19 does not have a significant impact on the entity. The Company has adequate financial resources and has the continued financial support of its parent, Santander UK Plc. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

Research and Development

The Company has developed a replacement mainframe IT system for its retail conditional sale and personal loan agreements. The asset was brought into use in January 2018. The replacement mainframe is undergoing further enhancements and will be fully operational in 2022. Further disclosure can be found in note 15.

The Company has started a long-term project to develop IRB compliant risk models.

Financial Instruments

The Company's risks are primarily managed at a Group level by the UK parent company, Santander UK plc.

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

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

All other assets, liabilities and transactions are denominated in Sterling.

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

Qualifying Third Party Indemnities

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

Pillar 3

The Santander UK plc Group's unaudited Pillar 3 disclosures are available in the Santander UK plc Group's Pillar 3 disclosures report.

Employees

Details of the number of employees and related costs can be found in note 9 to the Financial Statements.

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters and the Intranet. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees are encouraged to be involved in the Company's performance through Group sharesave schemes and are also encouraged to achieve a common awareness of the financial and economic factors affecting the performance of the Company and Group.

The Group is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. The Group has processes in place to help recruit, train, develop, retain and promote employees with disabilities and is committed to giving full and fair consideration to applications for employment made by disabled persons, and for continuing the employment of, and arranging appropriate training for, existing employees who have become disabled.

REPORT OF THE DIRECTORS *(continued)*

Corporate Governance Statement

The Company is part of the Santander UK plc Group. For the financial year ended 31 December 2020, the Group reported against the UK Corporate Governance Code 2018 (the Code). Additionally, the Group has developed its own Internal Corporate Governance Framework (CGF) suitable for its subsidiaries, to which the Company adheres. The Company has therefore adopted the Group's CGF, which indirectly follows the spirit of the Code. The corporate governance arrangements of the Group, which includes the Company, are discussed in the Santander UK plc 2020 Annual Report, which does not form part of this Report.

With regards to risk management, the Group sets the overarching strategic agenda and risk appetite for itself and Group subsidiaries, to ensure alignment with its applicable risk appetite as well as its culture and values. These are reviewed regularly by its Board Risk Committee as well as its executive management. The CGF provides for the Company to review its own strategy and risk appetite, ensuring alignment to the Group's strategic agenda, risk management and automatic escalation of material risk matters as and when required. During these discussions, the Board considers its respective stakeholder group (which includes customers and its shareholder).

The Company has employees and supporting staff (see note 9 to these financial statements). Remuneration practices are aligned to Group policies and procedures. Board Chair appointments (including remuneration where applicable) are subject to the Group's Board Nomination Committee consideration. The Company, its Board of Directors and its parent are committed to fair employee reward and incentivisation.

COVID-19 / BREXIT

2020 was a demanding year in general with Brexit uncertainty and economic turmoil as a result of the COVID-19 pandemic. The Company continues to monitor the impact of COVID-19 and Brexit and intends to take a coordinated approach with its UK parent company, Santander UK plc (the Group) where applicable. Further information can be found in the strategic report. The Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date.

Streamlined Energy and Carbon Reporting (SECR)

SECR is considered and managed at a Santander UK 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 2020 Annual Report.

Independent Auditors

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

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

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

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

Diane Roberts
Director

25th June 2021

Registered Office Address: Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR

Independent auditors' report to the members of Santander Consumer (UK) plc

Report on the audit of the financial statements

Opinion

In our opinion, Santander Consumer (UK) plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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, which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of the projected profit, capital and liquidity positions in management's going concern assessment;
- Assessment of the capital and liquidity position of the Santander Group, and therefore its ability to continue to provide finance to the company
- Evaluation of the adequacy of the disclosures made in the financial statements in relation to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Santander Consumer (UK) plc (continued)

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 the 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 the 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 the Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

Independent auditors' report to the members of Santander Consumer (UK) plc (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority, 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 posting of fraudulent journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of regulatory correspondence;
- Identifying and, where relevant, testing journal entries with a higher fraud risk, for example those posted by senior management or with unusual account combinations;
- Challenging and testing key assumptions and judgements made by management in respect of critical accounting estimates and obtaining appropriate audit evidence.

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.

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.

Luke Hanson

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 June 2021

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Note	2020 £000	2019 £000
Net interest and similar income	5	305,410	338,238
Finance costs	6	(133,343)	(178,186)
Net interest income		**172,067**	**160,052**
Other operating income	7	116,975	107,321
Administrative expenses	9	(141,000)	(146,513)
Impairment losses	8	(35,884)	(26,235)
Operating profit		**112,158**	**94,625**
Investment gains	12	293	891
Investment income	10	15,500	12,000
Profit before tax		**127,951**	**107,516**
Tax	13	(21,386)	(19,262)
Profit for the year		**106,565**	**88,254**
Other comprehensive income that may be classified to profit or loss subsequently:			
Cash flow hedge adjustment		3	10
Other comprehensive income for the year net of tax		**3**	**10**
TOTAL COMPREHENSIVE INCOME		**106,568**	**88,264**

All the activities of the Company are classed as continuing.

The accompanying notes form an integral part of the financial statements

BALANCE SHEET

As at 31 December

	Note	2020 £000	2019 £000
Non-current assets			
Intangible assets	15	8,999	6,978
Property, plant and equipment	16	11,458	12,323
Operating lease assets	17	505,738	506,257
Investment in subsidiary	18	109,605	109,605
Investment in joint venture	19	61,506	27,506
Finance lease receivables	20	2,788,298	2,418,016
Financial assets held at amortised cost	21	2,632,735	2,831,760
Trade and other receivables	22	5,788	9,454
Deferred tax asset	23	12,314	3,009
		6,136,441	**5,924,908**
Current assets			
Finance lease receivables	20	820,612	948,361
Financial assets held at amortised cost	21	3,631,448	3,478,578
Trade and other receivables	22	53,075	21,282
Derivative financial instruments	24	23	5
Inventories	25	21,722	13,873
Cash and cash equivalents	14	46,253	64,945
		4,573,133	**4,527,044**
Total assets		**10,709,574**	**10,451,952**
Current liabilities			
Trade and other payables	26	(98,679)	(105,322)
Lease liabilities	27	(1,058)	(1,079)
Derivative financial instruments	24	-	(160)
Bank overdrafts and borrowings	28	(5,999,674)	(5,092,784)
Corporation tax		(27,931)	(23,642)
		(6,127,342)	**(5,222,987)**
Net current liabilities		**(1,480,973)**	**(633,980)**
Non-current liabilities			
Bank overdrafts and borrowings	28	(3,849,700)	(4,602,273)
Lease liabilities	27	(10,453)	(11,159)
Derivative financial instruments	24	-	(22)
		(3,860,153)	**(4,613,454)**
Total liabilities		**(9,987,495)**	**(9,836,441)**
Net assets		**722,079**	**615,511**
Equity			
Capital and reserves			
Share capital	29	150,000	150,000
Retained earnings		572,079	465,511
Total equity		**722,079**	**615,511**

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

The financial statements on pages 10 to 43 were approved by the Board of Directors and signed on its behalf by:

Diane Roberts
Director
25th June 2021

CASH FLOW STATEMENT

For the year ended 31 December

	Note	2020 £000	2019 £000
Net cash used in operating activities	30	**(154,144)**	**(157,054)**
Investing activities			
Investment in joint venture		(34,000)	-
Dividends received from PSA Finance UK Limited	10	15,500	12,000
Purchase of intangible assets	15	(3,116)	(1,505)
Purchase of property, plant and equipment		(65)	(245)
Net cash (used in)/ generated by investing activities		**(21,681)**	**10,250**
Financing activities			
Interest paid		(133,343)	(178,186)
Repayments of obligations on securitised notes		(300,933)	(564,950)
Cash flows from derivative financial instruments		95	19,772
New deposits		(45,748)	(1,197,349)
Repayment of deposits		181,811	1,268,940
Increase in bank overdrafts and loans		(6,315)	(8,711)
Proceeds from borrowings		6,030,324	6,172,513
Repayment of borrowings		(5,568,758)	(5,345,458)
Net cash generated from financing activities		**157,133**	**166,571**
Net (decrease)/ increase in cash and cash equivalents		(18,692)	19,767
Cash and cash equivalents at beginning of year		64,945	45,178
Cash and cash equivalents at end of year	14	**46,253**	**64,945**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share Capital £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2019	150,000	377,247	527,247
Profit and total comprehensive income for the year	-	88,264	88,264
Balance at 31 December 2019	150,000	465,511	615,511
Balance at 1 January 2020	150,000	465,511	615,511
Profit and total comprehensive income for the year	-	106,568	106,568
Balance at 31 December 2020	150,000	572,079	722,079

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

,

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

General information

The Company is a public limited liability company in which liability is limited by shares. The Company is domiciled and incorporated in the United Kingdom and is part of Santander UK Group Holdings plc whose ultimate parent is Banco Santander SA. The registered office address of the Company is Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

These financial statements present information about this Company as an individual undertaking. The Company is exempt from preparing consolidated financial statements as the ultimate parent undertaking, Banco Santander SA, produces IFRS consolidated financial statements, of which the Company is a member, which are available for public use. The method to obtain copies of the consolidated financial statements is set out in note 34 of these financial statements.

The financial statements have been prepared under the historical cost convention (except for the derivative financial instruments which are measured at fair value through profit and loss) and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Company is pounds sterling.

Recent accounting developments

Interest Rate Benchmark Reform

In September 2019, the IASB issued "Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS.7". The IAS 39 amendments apply to all hedging relationships directly affected by uncertainties related to interbank offered rate (IBOR) reform and must be applied for annual periods beginning on or after 1 January 2020.

In August 2020, the IASB issued "Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16". These amendments apply only to changes required by IBOR reform to financial instruments and hedging relationships. The amendments are effective from 1 January 2021 and must be applied retrospectively without restating comparative information. Following their endorsement for use in the European Union and the UK, the Santander UK Group, (comprising Santander UK plc and its subsidiaries) of which this Company is a part, has elected to apply the amendments in the preparation of these financial statements. The amendments address the accounting issues for financial instruments when IBOR reform is implemented including providing a practical expedient for changes to contractual cash flows, giving relief from specific hedge accounting requirements, and specifying a number of additional disclosures to enable users of financial statements to understand the effect of IBOR reform on an entity's financial instruments and risk management strategy.

As the Company has no IAS 39 compliant hedge accounting relationships, the Phase 1 amendments and the amendments relating to hedge accounting in Phase 2 do not apply.

The IBOR transition and risk exposure affected by IBOR reform for the Santander UK Group are managed at a Group level. Details of the extent of risk exposure that is affected by IBOR reform, and how Santander UK Group's transition to alternative benchmark interest rates is being managed are disclosed in the Risk review in the Santander UK Group's 2020 Annual Report and Accounts which does not form part of this Report.

The Phase 2 amendments apply only to changes required by IBOR reform to financial instruments and, where applicable, hedging relationships. Changes are directly required by IBOR reform if, and only if, the change is necessary as a direct consequent of interest rate benchmark reform, and the new basis for determining the contractual cash flow is economically equivalent to the previous basis.

The Company has no IAS 39 compliant hedge accounting relationships so the amendments relating to hedge accounting do not apply.

Practical expedient for changes to contractual cash flows

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate using the guidance in IFRS 9 resulting in no immediate gain or loss being recognised, provided that, the change is directly required by IBOR reform and takes place on an economically equivalent basis. Instruments referencing LIBOR or other IBORs will transition to alternative benchmark interest rates during 2021. Consequently, the application of the practical expedient has had no material impact for the Company for the year ended 31 December 2020.

At 31 December 2020, the amounts affected by IBOR reform that have yet to transition to an alternative benchmark interest rate are as follows:

GBP loan owed to parent undertaking of £670,000,000 which bears interest at LIBOR, as disclosed in note 33.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Future accounting developments:

At 31 December 2020, for the Company, there were no significant new or revised standard 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

Interest income is recognised on unsecured loans by applying the effective interest rate to the gross carrying amount.. See lease policy for recognition of income regarding leases. Interest is receivable on term deposits at fixed rates.

Net interest and similar income

Net Interest and similar income is received from five key income streams:

- Retail income which includes interest income from finance leases, unsecured personal loans and associated fees and commissions. Our manufacturer partners provide subsidies in lieu of interest for low and nil rate retail finance agreements. Third party intermediaries including dealerships and brokers introduce all new business. Commission is paid to these intermediaries for their services; the commission is spread using the effective interest rate method over the expected life of the agreements. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is provided, or on the performance of a significant act. For retail, fee and commission income consists principally of collection services fee, and fees for non-banking financial products. Revenue from these income streams is recognised when the service is provided.
- Wholesale funding income which includes both interest and fee income from lending to dealers
- Interest and fee income from investments in a subsidiary and joint venture.
- Interest and fee income from securitisations.
- Other bank interest from amounts held on deposit.

Other operating income

Other operating income includes:

- income generated from operating leases.
- intercompany recharges for servicing the Hyundai Capital UK Limited portfolio

Revenue from operating leases is recognised on a straight-line basis, over the life of the agreement. All other operating income is recognised when the service is provided.

Finance costs

Finance costs consist of interest payable to Group undertakings, amounts paid on securitisation, fair value losses on interest rate swaps and bank charges on overdrafts and loans. The criteria used to recognise finance costs vary depending upon their nature. The main criteria are as follows:

- Interest payable to Group undertakings and bank charges are recognised on an accruals basis
- Fair value losses on interest rate swaps are recognised at fair value through profit and loss.

.

Pensions and other post-retirement benefits

The Company participates in a Group defined benefit scheme run by Santander UK. However, it is not possible to identify the Company's share of the assets and liabilities of the scheme; therefore, it is accounted for as a defined contribution scheme. The pension charge in the profit and loss reflects the contributions payable during the year.

Intangible assets

Intangible assets are recognised if they arise from contracted or other legal rights or if they are capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged. The value of such intangible assets is amortised over the useful economic life of the assets which is seven years. Any intangible assets with indefinite useful economic lives are subjected to an impairment review at least annually and whenever there is an indication that the intangible asset may be impaired.

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of these products can be measured reliably. These costs include payroll, the costs of materials and services, and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in fixtures and equipment on the balance sheet where the software is an integral part of the related computer hardware. Capitalisation of costs ceases when the software is capable of operating as intended. Costs associated with maintaining software programmes are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment include buildings and office fixtures and equipment. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in administration expenses. Repairs and renewals are charged to the income statement when the expenditure is incurred. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life as follows:

Buildings	15 years
Office fixtures and equipment	2 to 15 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Investment in Subsidiary

A subsidiary is an entity over which the Company has control. Control is achieved where the Company has (i) power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.
Since the Company is exempt from preparing consolidated financial statements as the ultimate parent undertaking, Banco Santander SA, produces IFRS consolidated financial statements, of which the Company is a member, investments in subsidiaries are recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances. An impairment review of investment in the subsidiary is carried out annually.

Investment in Joint Venture

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Accounting policies have been aligned to the extent there are no differences from the Santander UK Group's policies.

The Santander UK Group's investments in joint ventures are accounted for by the equity method of accounting and are initially recorded at cost and adjusted each year to reflect the Santander UK Group's share of the post-acquisition results of the joint venture. Since the Company is exempt from preparing consolidated financial statements as the ultimate parent undertaking, Banco Santander SA, produces IFRS consolidated financial statements, of which the Company is a member, investments in joint ventures are recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances. An impairment review of investment in the joint venture is carried out annually.

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, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement
The Company applies IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

c) 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 and government and corporate bonds. 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.

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.
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.
Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

- 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 'Net interest and similar income' 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.

- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net interest and similar income'. Interest income from these financial assets is included in 'Other gains/ losses' using the effective interest rate method.

-FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other operating income' in the period in which it arises.

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.

Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Impairment of debt instrument financial assets *(continued)*

Financial assets are written off when it is reasonably certain that receivables are irrecoverable. All write-offs are assessed on a case-by-case basis, taking account of the exposure at the date of write-off. Write-offs are charged against previously established loss allowances.

Recoveries of credit impairment losses are not included in the impairment loss allowance but are taken to income and offset against credit impairment losses. Recoveries of credit impairment losses are classified in the income statement as 'Impairment losses'.

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

Hedge accounting

IFRS 9 revises the requirements on hedge accounting, adoption of which is optional. The Company will continue to apply the relevant IAS 39 hedge accounting requirements.

a) Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the Statement of Comprehensive Income.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability).

Trade and other payables are classified as amortised cost.

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimates to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss.

Finance leases

The Company as a Lessor
The Company's finance products include Conditional Sale agreements and Personal Contract Purchase (PCP) agreements. Under Conditional Sale agreements, the Company is the legal owner of the vehicle until all repayments have been made. Under Personal Contract Purchase (PCP) agreements there is a final balloon payment at the end of the agreement, and the customer has three contractual options at the end of the agreement term. Further details are found in note 20.

Definition of a lease
The definition of a lease also includes hire purchase contracts. These are contracts for the hire of an asset that give the hirer an option to acquire title to the asset and conditional sale agreements where title automatically passes to the lessee on making the final lease payment.

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. Assets held under finance leases are recognised in the balance sheet as a receivable amount equal to the net investment in leases. The net investment in leases represents the present value of the minimum lease payments receivable under finance leases or the life of the asset if shorter, at the inception of the lease, together with any unguaranteed residual value accruing to the lessor discounted at the rates of interest implicit in the leases. Income from finance leases is allocated to accounting periods so as to give a constant periodic rate of return on the net investment. Impairment losses arising from changes in future residual values for finance leases are recognised as part of the impairment of financial assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Finance leases *(continued)*

The Company as lessee
The Company assesses whether a contract is or contains a lease at the inception of the contract and recognises a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases, except for leases with a term of 12 months or less which are expensed in the income statement on a straight-line basis over the lease terms. Lease payments exclude irrecoverable VAT which is expensed in the income statement as lease payments are made. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate appropriate to the lease term. The lease liability is subsequently measured at amortised cost using the effective interest rate method. Remeasurement of the lease liability occurs if there is a change in the lease payments (when a corresponding adjustment is made to the ROU asset), the lease term or in the assessment of an option to purchase the underlying asset. At inception, the ROU asset, which is included in Property, plant and equipment on the balance sheet, comprises the lease liability, initial direct costs and the obligations to restore the asset, less any incentives granted by the lessor. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset and is reviewed for impairment as for owned assets. The obligation to restore the asset is included in Provisions on the balance sheet.

Operating leases

The Company as a lessor: Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating leases are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are regularly reassessed against revised projections of used car prices and the resulting changes of estimate are reflected in adjustments to the deprecation charge for the year and remaining lease term.

Financial guarantee contracts

The Company entered into a junior credit protection deed with its securitisation vehicle Motor 2018-1 Securities DAC on 12th December 2019. This instrument meets the definition of a financial guarantee contract. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Santander Consumer (UK) plc accounts for guarantees that meet the definition of a financial guarantee contract at fair value on initial recognition. In subsequent periods, these guarantees are measured at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised as a provision in accordance with IAS 37.

With regards to expected future premiums from issued financial guarantee contracts, a separate financial asset is recognised as being the time-discounted value of expected future premiums still to be received in respect of guarantees issued.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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 net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the 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.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

Inventories encompass vehicles held for sale in the ordinary course of business. Inventories are valued at the lower of cost and net realisable value.

Cash and cash equivalents

For the purposes of the cash flow statement and balance sheet, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including loans and advances to banks in the same Group, and amounts due from other banks.

Securitisation transactions

The Company has entered into certain arrangements where undertakings have issued asset-backed securities. As the Company has retained substantially all the risks and rewards of the underlying assets, such financial instruments continue to be recognised on the balance sheet, and a liability recognised for the proceeds of the funding transaction.

The Company does not prepare group financial statements. The special purpose vehicles (SPV) are consolidated at a group level as the Company retains the risks and rewards from the securitised assets.

Term deposits

Term deposits are classified as financial assets and are included within loans and receivables. Term deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of the deposits and is paid periodically or at maturity. Interest income earned but not paid is accrued.

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

2. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the Company's 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 on-going basis. Management bases its estimates and judgements on historical experience and on 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 accounting estimates and judgements are considered important to the portrayal of the Company's financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) 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.

In calculating each estimate, a range of outcomes was calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES *(continued)*

Expected credit loss allowances

The Company is exposed to credit risk where counterparties may not be able to meet their financial obligations. The application of the ECL methodology for calculating credit impairment allowances is 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 amount and actual amounts could have a material impact on the company's future financial results and financial condition.

Key parameters in the modelling of the ECL are probabilities of default (PDs), loss given default (LGDs) and exposure at default (EAD). The determination of these parameters involves modelling and requires management to analyse historic information as well as factoring in the macroeconomic outlook. Further information on the company's approach to determining loss allowances is described in Note 3.

Approximately 4.7% (2019: 6.9%) of Finance Lease exposures are classified as Stage 2. If a further £50m of exposures were to move from Stage 1 to Stage 2 at an average PD level, there would be an increase in ECL of approximately £6m (2019: £3m).

Residual value risk

Residual values represent the estimated value of the vehicle at the end of the agreement. Residual values are calculated after analysing published residual values and the Company's own historical experience in the used car market. The Company is subject to residual value risk being the risk that the value of a vehicle at the end of the lease period is worth less than anticipated. The Company manages residual value risk through a robust residual value setting process and combined with quarterly pricing reviews referencing industry data where available.

Operating Lease residual value risk

The Company is subject to residual value risk being the risk that the value of a vehicle at the end of the lease period is worth less than the anticipated value. All vehicles under operating leases are returned at the end of the agreement and sold by the Company. This differs to finance leases, see below. The Company agrees with the operating lease customer a set mileage and term for the vehicle and this along with market and historical data allows the Company to set the expected residual value.

Changes in residual value are reflected in adjustments to the depreciation charge for the year. In calculating the depreciation charge, the Company needs to determine an appropriate residual value on origination of the lease and then update residual values over the life of the lease to determine any adjustments required to the depreciation charge. Similar to certain finance leases, the Company is therefore exposed to movements in residual values over time on its operating lease assets and judgement is involved in assessing residual values on an ongoing basis. Further information can be found in note 17.

Retail and Finance leases residual value risk

This residual value risk arises in relation to PCP contracts and unsecured loans with balloons. Under these agreements, the customer may choose to return the vehicle at the end of the contract. To mitigate against this risk the Company sets the guaranteed future market value (GMFV) below the expected future market value, this protects the customers equity and reduces the likelihood of hand back.

The residual value risk also arises in relation to secured, regulated retail agreements whereby the customer has the right to Voluntary Terminate their agreement once 50% of the total amount payable including capital, interest and charges has been repaid. The calculation of the retail residual value risk provision involves significant management judgment associated with estimating the proportion of vehicles to be returned as well as used car values. Residual values of leased assets are reviewed regularly. The residual value risk associated with retail lending is reflected in a provision Further information can be found in Notes 3 and 20.

The provision as at 31st December 2020 included an overlay to reflect potential risks linked to Brexit and the on-going pandemic. Due to the inherently judgemental risks around these issues a 50% increase in the estimated overlay would result in a charge to the income statement of £2,500,000. A prolonged Covid 19 will create economic uncertainty and higher unemployment, that could negatively impact the hand back rate of vehicles. The Company's residual value risk could increase if used vehicle prices were to drop below the current model's expected loss amount.

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 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.

3. FINANCIAL RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk, interest rate risk, foreign currency risk, liquidity risk, conduct risk and residual value risk. The Company manages its risk in line with the central risk management function of the Santander UK Group. Santander UK Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK Group's strategic objectives.

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK plc Annual Report which does not form part of this report.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements.

The day-to-day management of operational risk is the responsibility of business managers (line 1) who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function (line 2) ensures that all key risks are regularly reported to the Group's risk committee and board of Directors. Group Internal Audit provides a third line of operational risk support.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. All new business is subject to credit scoring and/or underwriting policy criteria designed to assess creditworthiness. Loans and receivables to third parties are secured on vehicles owned by those parties.

The Company has no significant concentration of credit risk within its retail and contract hire portfolios, , with exposure spread over a large number of counterparties and customers. The maximum exposure is the amount recorded in the balance sheet and disclosed in notes 20 and 21. The Company has material amounts owed by related parties. These include joint venture Hyundai Capital UK Limited, subsidiary undertaking PSA Finance UK Limited, and term deposits held at Santander UK plc. These amounts are considered to be low risk as with other related party transactions. Full detail of balances can be found in note 33.

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 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.

Other metrics

The Company also assesses risks from other perspectives, such as fuel type, 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

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 typically 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.

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.

We have separate ECL models in operation for retail and wholesale lending. The standard wholesale ECL model relies on industry wide data from a third-party agency, this data is linked specifically to the auto finance market to calculate the probability of default. Internal dealer scores are used along with the PD to calculate any SICR. In addition to the modelled wholesale ECL, the management apply judgement models to assess concentration of risk and the likelihood of a material dealer failure. 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 DPD 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.

2020	Balance sheet amount		
	Gross amounts	Loss allowances	Net exposure
	£'000	£'000	£'000
Financial assets at amortised cost:			
Finance leases (note 20)	4,110,370	(63,980)	4,046,390
Unsecured personal loans (note 21)	804,550	(5,118)	799,432
Wholesale funding (note 21)	716,659	(21,843)	694,816
Entities with significant influence over the Company- Santander UK plc (note 33)	988,791	-	988,791
Joint venture: Hyundai Capital UK Limited (note 33)	2,236,711	-	2,236,711
Subsidiary undertaking: PSA Finance UK Limited (note 33)	1,489,949	-	1,489,949
Total financial assets at amortised cost	**10,347,030**	**(90,941)**	**10,256,089**

3. FINANCIAL RISK MANAGEMENT *(continued)*

2019	Balance sheet amount		
	Gross amounts	Loss allowances	Net exposure
	£'000	£'000	£'000
Financial assets at amortised cost:			
Finance leases (note 20)	3,871,574	(45,985)	3,825,589
Unsecured personal loans (note 21)	786,255	(4,231)	782,024
Wholesale funding (note 21)	569,374	(15,413)	553,961
Entities with significant influence over the Company- Santander UK plc (note 33)	1,149,083	-	1,149,083
Joint venture: Hyundai Capital UK Limited (note 33)	2,199,327	-	2,199,327
Subsidiary undertaking: PSA Finance UK Limited (note 33)	1,488,678	-	1,488,678
Total financial assets at amortised cost	**10,064,291**	**(65,629)**	**9,998,662**

For financial assets linked to related parties that meet the definition of a subsidiary, we do not hold any IFRS 9 provision as these are considered low risk and at a Santander UK plc Group level consolidate to nil.

For financial assets linked to the joint venture, Hyundai Capital (UK) Limited, this entity does not fully consolidate within the Santander Group. The Company completes an impairment review of this subsidiary annually and the risk of default is deemed to be negligible, and for this reason a separate IFRS 9 credit risk provision is not required against these assets.

Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

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 loans and advances to customers and net investment in finance leases (note 20). These are net of impairment losses.

	2020	2019
	£'000	£'000
Finance leases (note 20)	4,046,390	3,825,589
Unsecured personal loans (note 21)	799,432	782,024
Wholesale funding (note 21)	694,816	553,961
Finance agreements (note 20, 21)	**5,540,638**	**5,161,574**

The exposures relating to finance leases and personal loans are primarily to private individuals. Wholesale lending is to the commercial sector.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

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 2020. Financial assets in the scope of IFRS 9 and not presented in this table are considered stage 1.

2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Exposures				
Finance leases	3,890,195	182,362	37,813	4,110,370
Unsecured personal loans	790,285	11,868	2,397	804,550
Wholesale funding	639,567	77,092	-	716,659
Total exposures	**5,320,047**	**271,322**	**40,210**	**5,631,579**
IFRS 9 ECL				
Finance leases	(18,129)	(22,979)	(22,872)	(63,980)
Unsecured personal loans	(2,306)	(1,346)	(1,466)	(5,118)
Wholesale funding	(16,651)	(5,192)	-	(21,843)
Total ECL	**(37,086)**	**(29,517)**	**(24,338)**	**(90,941)**
Net exposures				
Finance leases	3,872,066	159,383	14,941	4,046,390
Unsecured personal loans	787,979	10,522	931	799,432
Wholesale funding	622,916	71,900	-	694,816
Total net exposures	**5,282,961**	**241,805**	**15,872**	**5,540,638**

2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Exposures				
Finance leases	3,581,292	266,040	24,242	3,871,574
Unsecured personal loans	769,954	14,090	2,211	786,255
Wholesale funding	296,807	272,567	-	569,374
Total exposures	**4,648,053**	**552,697**	**26,453**	**5,227,203**
IFRS 9 ECL				
Finance leases	(12,629)	(16,100)	(17,256)	(45,985)
Unsecured personal loans	(1,634)	(1,228)	(1,369)	(4,231)
Wholesale funding	(8,570)	(7,257)	415	(15,413)
Total ECL	**(22,833)**	**(24,585)**	**(18,210)**	**(65,629)**
Net exposures				
Finance leases	3,568,663	249,940	6,985	3,825,589
Unsecured personal loans	768,320	12,861	842	782,023
Wholesale funding	288,401	266,144	(553)	553,961
Total net exposures	**4,625,385**	**528,915**	**7,274**	**5,161,574**

Total exposures before ECL have increased by £404,376,000 and the key driver for this increase is within finance leases £238,796,000 and wholesale lending of £147,285,000. In addition, the staging criteria for exposures has been refined. This has resulted in a reduction in Stage 2 wholesale exposures and stage 2 finance lease exposures. The overall wholesale lending increase has been driven in part by the new manufacturer relationship with MG Motors.

As a result of the increase in exposures, ECL provisions have increased by £25,312,000. The finance lease ECL has increased by £17,995,000 and this is driven by model enhancements, exposure increases and a downgrading of the economic outlook. The wholesale ECL has increased by £6,430,000 and this is in part due to the new manufacturer relationship and concerns around dealership failures linked to the pandemic.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

Movements in ECL provision are set out below:

Finance leases	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2020	(12,629)	(16,100)	(17,256)	(45,985)
Income statement charge for the year	(8,539)	(1,795)	(15,122)	(25,456)
Net impairment charge	**(8,539)**	**(1,795)**	**(15,122)**	**(25,456)**
Transfers to 12-month ECL	3,093	(3,093)	-	-
Transfers to credit impaired	(54)	(1,991)	2,045	-
Assets derecognised – written off	-	-	7,461	7,461
At 31 December 2020	**(18,129)**	**(22,979)**	**(22,872)**	**(63,980)**

Finance leases	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2019	(13,410)	(18,024)	(17,442)	(48,875)
Income statement charge for the year	(2,219)	-	(17,888)	(20,107)
Income statement release for the year	-	6,597	185	6,782
Net impairment (charge)/ reversal	**(2,219)**	**6,597**	**(17,703)**	**(13,325)**
Transfers to 12-month ECL	3,049	(3,049)	-	-
Transfers to credit impaired	(49)	(1,624)	1,673	-
Assets derecognised – written off	-	-	16,215	16,215
At 31 December 2019	**(12,629)**	**(16,100)**	**(17,256)**	**(45,985)**

The ECL for finance leases has increased overall by £17,995,000 with increases in all ECL stages. Some of the increase is driven by the rise in finance lease exposures. However, the key driver is the change in the overall risk profile linked to the pandemic.

Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2020	(1,634)	(1,228)	(1,369)	(4,231)
Income statement charge for the year	(1,273)	-	(11,984)	(13,257)
Income statement release for the year	-	887	-	887
Net impairment (charge)/ reversal	**(1,273)**	**887**	**(11,984)**	**(12,370)**
Transfers to 12-month ECL	611	(611)	-	-
Transfers to credit impaired	(10)	(394)	404	-
Assets derecognised – written off	-	-	11,483	11,483
At 31 December 2020	**(2,306)**	**(1,346)**	**(1,466)**	**(5,118)**

Unsecured personal loans	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2019	(1,704)	(1,278)	(1,442)	(4,424)
Income statement charge for the year	(543)	-	(13,210)	(13,753)
Income statement release for the year	-	1,005	72	1,077
Net impairment (charge)/ reversal	**(543)**	**1,005**	**(13,138)**	**(12,675)**
Transfers to 12-month ECL	623	(623)	-	-
Transfers to credit impaired	(10)	(332)	342	-
Assets derecognised – written off	-	-	12,869	12,869
At 31 December 2019	**(1,634)**	**(1,228)**	**(1,369)**	**(4,231)**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

The ECL for unsecured personal loans has increased by £887,000. There has been a small increase in exposures of £18,295,000 plus a change in the mix of ECL stages, hence the higher ECL in 2020.

Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Stage 2 Subject to lifetime ECL £'000	Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2020	(8,406)	(6,454)	(553)	(15,413)
Income statement charge for the year	(8,455)	-	-	(8,455)
Income statement release for the year	-	1,472	66	1,538
Net impairment (charge/ reversal	**(8,455)**	**1,472**	**66**	**(6,917)**
Transfers to 12-month ECL	210	(210)	-	-
Assets derecognised – written off	-	-	487	487
At 31 December 2020	**(16,651)**	**(5,192)**	**-**	**(21,843)**

Wholesale funding	Stage 1 Subject to 12-month ECL £'000	Non-credit impaired Stage 2 Subject to lifetime ECL £'000	Credit impaired Stage 3 Subject to lifetime ECL £'000	Total £'000
At 1 January 2019	(8,599)	(3,496)	-	(12,095)
Income statement charge for the year	(311)	(2,453)	(555)	(3,319)
Net impairment charge	**(311)**	**(2,453)**	**(555)**	**(3,319)**
Transfers to 12-month ECL	504	(504)	-	-
Assets derecognised – written off	-	(1)	2	1
At 31 December 2019	**(8,406)**	**(6,454)**	**(553)**	**(15,413)**

The Wholesale ECL has increased by £6,430,000 and this is driven by increases in balances, a new manufacturer and management overlays.

Covid 19 Payment deferrals

	Total number of customers helped	Outstanding loan balance £'000	% of relevant loan book	Total value of arrears £'000	% in arrears
Consumer (auto) finance	36,971	403,037	9%	56,526	14%

Arrears defined as 30 day past due	Repaying £'000	On payment holiday £'000	On extended payment holiday	In arrears- new <30 days past due £'000	In arrears- new >30 days past due £'000	Arrears (before start of payment holiday) £'000
Consumer (auto) finance	358,380	24,220	20,437	19,944	17,139	19,443

In 2020 as a result of the Covid 19 pandemic the Company offered payment deferrals to 36,971 customers (2019: nil). As at the balance sheet date, 89% of the customers are now repaying their agreements, 6% have an active payment deferral in place and 5% have been offered extended repayment terms.

Interest rate risk

The Company provides fixed rate loans and finance leases. The Company's borrowings are all fixed rate loans and for this reason there is limited interest rate risk on the retail lending portfolio.

The Company has retained a proportion of notes issued by the securitisation vehicle Motor 2017-1 plc. An interest rate swap has been entered into to hedge an interest rate mismatch with Santander UK plc.

Foreign currency risk

The Company's securitisations are in sterling and US dollars and it is therefore exposed to foreign currency risk. This risk is mitigated by the use of cash flow swaps.

At the reporting date the Company has one currency cash flow swap linked to the Motor 2017 securitisation (2019: one).

3. FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company, 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 and the level of the third party debt is not considered to be material.

Liquidity risk is monitored through different committees and levels of management, including the Asset and Liability Committee (ALCO) and the Board Risk Committee.

Maturities of financial liabilities
The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Company based on the remaining period to the contractual maturity date at the balance sheet date. There are no significant financial liabilities related to financial guarantee contracts. This table is not intended to show the liquidity of the Company.

At 31 December 2020	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Intercompany liabilities	7,777	2,107,284	3,871,481	3,849,700	-	9,836,242
Other liabilities	13,132	-	-	-	-	13,132
Total financial liabilities	**20,909**	**2,107,284**	**3,871,481**	**3,849,700**	**-**	**9,849,374**

At 31 December 2019	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Intercompany liabilities	10,783	1,443,595	3,624,478	4,602,272	-	9,681,128
Other liabilities	13,740	-	-	-	-	13,740
Total financial liabilities	**24,523**	**1,443,595**	**3,624,478**	**4,602,272**	**-**	**9,694,868**

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.
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.

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Company's retail business is subject to fair value interest rate risk as the finance leasing agreements and unsecured personal loans all bear fixed interest and as such the value of these assets fluctuates with changes in market interest rates. To mitigate this risk for finance leases, lease arrangements and lending are taken out with a fixed rate of interest.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. FINANCIAL RISK MANAGEMENT *(continued)*

Conduct risk

Conduct risk is the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers and that we fail to maintain high standards of market integrity.

We consider conduct risk as part of the governance around our key business decisions. To support this, our conduct risk framework sets out how we manage the risk. It includes:

- Key roles and responsibilities
- Our approach to risk culture and remuneration
- Formal governance, escalation lines and committee structures

All colleagues are made aware of their responsibilities for conduct risk. They are made accountable through objective setting, performance management and remuneration.

Residual value risk

Residual value risk arises from the Company's leasing activities and relates to not realising the full amount of the residual values ("RV") set by the Company on the origination of the leases. The profitability of the Company's operating and finance leases is highly dependent on the residual value at the end of the agreement with the customer.

Under the terms of PCP agreements, a customer has the right to hand back the vehicle with no further liability after all regular payments have been made, but before the final instalment has been paid. This final instalment is the GMFV (Guaranteed Minimum Future Value), or residual value. There is a risk that when a vehicle is handed back to the Company, the residual value is greater than the proceeds received in selling the vehicle at auction and the Company will incur a loss. The Company reviews the residual values and estimates the effect on prices and likelihood of the customer handing back the vehicle. As a result, a provision is created and subsequent impairment is recognised immediately.

Under the Consumer Credit Act customers who enter into secured regulated agreements are allowed to exercise their legal right to terminate their agreement once 50% of the total amounts payable under the agreement have been repaid. When this arises the Company is subject to potential losses on vehicles returned early.

In relation to operating leases, movements in residual values are reflected in adjustments to the depreciation charge over the life of the leased asset.

The Company manages residual value risk by regularly monitoring the residual values against industry-wide data as well as its own experience. The pricing models include a small margin for changes in the values of used cars. However, future RVs can be difficult to predict due to future trends and changes in customer demand and therefore the Company is exposed to the risk that RVs fall, leading to a reduction in profitability.

4. CAPITAL MANAGEMENT AND RESOURCES

Santander UK plc adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK group. Disclosures relating to the Company's capital management can be found in the Santander UK Annual Report and Financial Statements.

Capital held by the Company and managed centrally as part of Santander UK plc, comprises share capital and reserves which can be found in the Balance Sheet on page 9. The Company's capital is not externally regulated.

Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital. The Company is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing, including deferred consideration, have been paid.

5. NET INTEREST AND SIMILAR INCOME

An analysis of the Company's revenue is as follows:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Retail- finance leasing income	172,533	159,675
Retail- unsecured personal loan income	45,118	43,370
Wholesale funding income	16,734	17,868
Interest and fees receivable on lending to joint ventures	35,298	39,177
Interest on term deposits	2,865	8,778
Interest income on securitisation	32,813	68,517
Bank interest income	49	853
Total	**305,410**	**338,238**

Interest income on securitisations includes deferred consideration received, in accordance with the underlying securitisation legal documentation, from the special purpose vehicles (SPVs) listed in note 21. It should be reviewed in conjunction with amounts payable on securitisation in note 6 that relate to interest and other income from the securitised assets receivable by the SPVs. The net amounts payable on securitisation are £9,096,000 (2019: £7,406,000).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. FINANCE COSTS

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Amounts payable on securitisation	41,909	75,923
Interest payable on borrowings held with Santander UK plc Group	90,746	101,527
Interest on bank overdrafts and loans	306	332
Operating lease finance charges	382	404
Total	**133,343**	**178,186**

Amounts payable on securitisation include interest on externally issued notes/loans, and primarily consist of intercompany recharges of which further detail can be found in the related parties note 33.

The borrowings with Santander UK Plc are fixed rate loans. The weighted average interest rate payable on borrowings held with Santander UK plc Group was 0.89% for the year (2019: 0.89%).

The interest rate payable on bank overdrafts is variable and based on the base rate plus 0.15%; as at the end of 2020 the rate was 0.25% (2019: 1%).

7. OTHER OPERATING INCOME

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Operating lease income	99,635	92,342
Intercompany recharges	14,804	11,709
Net income on wholesale fees and other items from retail book	2,536	3,270
Total	**116,975**	**107,321**

Operating lease income includes the profits and losses on the sale of the vehicle at the contract termination date. Within operating income of £99,635,000 (2019: £92,342,000) is a loss on disposal of £1,555,000 (2019: £5,466,000 loss) – see note 17.

Intercompany charges are made to the Company's Joint Venture Hyundai Capital UK Limited in relation to portfolio management and expenses paid on their behalf.

8. CREDIT IMPAIRMENT LOSSES AND PROVISIONS

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Credit impairment losses and provisions:		
Loans and receivables (note 3)	(44,744)	(29,320)
Recoveries of loans and receivables (note 3)	10,366	8,123
	(34,378)	(21,197)
Provisions for RV and voluntary terminations	(1,506)	(5,038)
	(35,884)	(26,235)

9. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Staff costs:		
Wages and salaries	30,123	28,442
Social security costs	3,234	3,120
Other pension costs (see note 32)	2,749	2,426
	36,106	**33,988**
Depreciation of property, plant and equipment (see note 16)	1,423	1,141
Depreciation of operating leases (see note 17)	81,191	82,942
Amortisation	1,095	1,095
Other administrative expenses:		
Information Technology	11,155	13,432
General overheads	9,457	13,665
Provision for restructuring	315	-
Auditors' remuneration for statutory audit	258	250
	104,894	**112,525**
Total	**141,000**	**146,513**

Staff Costs

The average monthly number of employees (including Executive Directors) was:

	Year ended 31 December 2020 No.	Year ended 31 December 2019 No.
Sales and customer service	355	353
Administration and support	302	283
Total	**657**	**636**

10. INVESTMENT INCOME

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Dividends received from PSA Finance UK Limited	15,500	12,000
Total	**15,500**	**12,000**

During the year, the Company's subsidiary PSA Finance UK Limited paid a dividend of £31,000,000 to shareholders (2019: £24,000,000). The Company received £15,500,000 in line with its 50.00% ownership interest (2019: £12,000,000). Further details regarding the Company's subsidiary investment can be found in note 18.

11. DIRECTORS' EMOLUMENTS

The aggregate emoluments received by the Directors of the Company were:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Salaries and fees	418	418
Performance related payments	306	452
Other fixed remuneration	48	46
Total emoluments excluding pension contributions	**772**	**916**
Pension contributions	158	139
Total	**930**	**1,055**

The aggregate emoluments above exclude emoluments received by Directors in respect of their primary duties as Directors or officers of Banco Santander SA and Santander UK plc.

Remuneration of highest paid Director

The emoluments excluding pension contributions of the highest paid Director were £507,285 (2019: £621,047) of which £221,664 was performance related (2019: £336,117). The accrued pension benefit for the highest paid Director was £132,168 (2019: £128,425).

Two Directors (2019: two) will be receiving benefits under a defined benefits scheme and no Director (2019: none) will be receiving benefits under a defined contribution scheme.

The Company ensures that it is compliant with the mandatory deferral requirements of the PRA's Remuneration Rules and Remuneration Code for staff who meet the relevant criteria and the amount of bonus to be deferred is based on the total variable pay received. The PRA Remuneration Code prescribes that at least 40% of variable pay must be made over a period of at least three years and, for staff earning £500,000 or more in variable remuneration, at least 60% of a bonus must be deferred over the same period.

All UK bonus awards are subject to deferral principles that have been set at Banco Santander SA group level. Such principles, as applied to the Company, are subject to ratification by the Santander UK Board Remuneration Committee and can be overridden by UK national requirements to meet any criteria set by the PRA or other regulator/law.

12. INVESTMENT GAINS

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Unrealised fair value gain on basis interest rate swaps	292	888
Unrealised fair value gain on cross currency swaps	1	3
Total investment gains	**293**	**891**

The above gains were on derivatives. See note 24.

13. TAX

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Current tax:		
UK corporation tax on profit of the year	27,930	23,176
Adjustments in respect of prior years	2,761	5,817
Total current tax	30,691	28,993
Deferred tax (note 23):		
Origination and reversal of temporary differences	(6,586)	(5,040)
Change in rate of UK Corporation tax	(603)	531
Adjustments in respect of prior years	(2,116)	(5,222)
Total deferred tax	(9,305)	(9,731)
Tax charge on profit for the year	**21,386**	**19,262**

UK corporation tax is calculated at 19.00% (2019: 19.00%) of the estimated assessable profits for the year.

The Finance Act 2016 introduced a reduction in the corporation tax rate to 17% from 1 April 2020. However, this rate deduction was reversed in the UK Budget in March 2020.

The UK government announced in it's budget on 3 March 2021 that it would increase the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. Since the proposed change was not substantively enacted by the balance sheet date, the effect has not been reflected in these financial statements. The budget changes had no impact on deferred tax.

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

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Profit before tax:		
Continuing operations	127,951	107,516
Tax at the UK corporation tax rate of 19.00% (2019: 19.00%)	24,311	20,428
Non-deductible expenses/ non-taxable income	(22)	(12)
Non-taxable income	(2,945)	(2,280)
Effect of change in tax rate on deferred tax provision	(603)	531
Adjustments in respect of prior years	645	595
Tax charge for the year	**21,386**	**19,262**

14. CASH AND CASH EQUIVALENTS

	2020 £000	2019 £000
Cash and cash equivalents	46,253	64,945
	46,253	**64,945**

Cash and cash equivalents consist of funds held in bank accounts operated by Santander UK plc and various third parties.

15. INTANGIBLE ASSETS

Software capitalisation	2020 £000	2019 £000
Cost		
At 1 January	11,357	9,851
Additions	3,116	1,506
At 31 December	**14,473**	**11,357**
Accumulated amortisation		
At 1 January	4,379	3,284
Charge in year	1,095	1,095
At 31 December	**5,474**	**4,379**
Carrying amount		
At 31 December	**8,999**	**6,978**

The additions relate to two capital projects, the Internal Ratings Basis Project and the Your Red Car Project. The assets capitalised of £3,116,000 (2019: £1,506,000) are not yet operational and to date no amortisation has been charged relating to these additions.

The total cost of £14,473,000 is made up of three capital projects. £9,851,000 relates to the replacement of the mainframe retail systems, £2,741,000 to the Your Red Car Advertising portal and £1,881,000 to the IRB project,

16. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment £000	Total £000
Cost		
Adjustment on transition to IFRS 16	12,566	12,566
Additions	898	898
At 31 December 2019 and 1 January 2020	**13,464**	**13,464**
Additions	558	558
At 31 December 2020	**14,022**	**14,022**
Accumulated depreciation		
Charge in year	1,141	1,141
At 31 December 2019 and 1 January 2020	**1,141**	**1,141**
Charge in year	1,423	1,423
At 31 December 2020	**2,564**	**2,564**
Net book value		
At 31 December 2020	**11,458**	**11,458**
At 31 December 2019	12,323	12,323

Included in the above line items are right of use assets, with a net book value of the following:

	At 31 December 2020 £000	At 31 December 2019 £000
Buildings	10,785	11,555
Vehicles	483	549
	11,268	12,104

17. OPERATING LEASE ASSETS

The Company enters into operating lease arrangements with customers in the commercial sector. These relate to contract hire agreements provided to businesses and private individuals.

	£000
Cost	
At 1 January 2019	**485,097**
Additions	225,354
Disposals	(84,181)
At 31 December 2019 and 1 January 2020	**626,270**
Additions	184,606
Disposals	(158,570)
At 31 December 2020	**654,306**
Accumulated depreciation and impairment	
At 1 January 2019	**54,506**
Depreciation charge for the year	82,943
Disposals	(17,436)
At 31 December 2019 and 1 January 2020	**120,013**
Depreciation charge for the year	81,191
Disposals	(54,636)
At 31 December 2020	**146,568**
Net book value	
At 31 December 2020	**505,738**
At 31 December 2019	506,257

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments:

	2020 £000	2019 £000
Within 1 year	78,604	79,595
Between 1-5 years	53,925	59,717
Total	**132,529**	139,312

The breakdown of net loss on disposals is as follows:

	2020 £000	2019 £000
Disposals- cost	(158,570)	(84,180)
Disposals- depreciation	54,636	17,436
Sale proceeds	102,379	61,278
Net loss on disposal	**(1,555)**	(5,466)

18. INVESTMENT IN SUBSIDIARY

On 3 February 2015, the Company entered into an agreement with Banque PSA Finance, S.A. (BPF), the auto finance unit of Group PSA Peugeot Citroën, to purchase 50% of the ordinary shares of PSA Finance UK Limited (PSA). The Company, PSA and BPF have set up a cooperation to provide retail finance facilities including finance leases and unsecured personal loans to retail customers for the purchase of motor vehicles and equipment. Wholesale funding to dealers is provided through a range of facilities. The Company is deemed to have control over PSA Finance UK Limited through its provision of a funding facility which has a significant effect on the subsidiary's principal activity.

Since the Company is exempt from preparing consolidated financial statements as the immediate parent Santander UK plc and the ultimate parent undertaking, Banco Santander SA, produce IFRS consolidated financial statements, of which the Company is a member, the investment in subsidiary is recorded in the Company balance sheet at cost, less any accumulated impairment loss allowances.

	£000
Net book value as at 1 January 2019, 31 December 2019, I January 2020 and 31 December 2020	**109,605**

The investment in PSA Finance UK Limited is stated at cost. In the year, PSA Finance UK Limited paid a dividend of £15,500,000 (2019: £12,000,000) and as at the balance sheet date there is no impairment.

Details of the Company's subsidiary investment at 31 December 2020 are as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Indirectly held:			
PSA Finance UK Limited	UK	50.00	50.00

The remaining proportions of ordinary shares are held as follows:

	Proportion of ownership interest %	Proportion of voting power held %
Banque PSA Finance SA	50.00	50.00

The registered office of PSA Finance UK Limited is 61 London Road, Redhill, Surrey, RH1 1QA.

19. INVESTMENT IN JOINT VENTURE

Details of the Company's joint ventures as at 31 December 2020 are as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Hyundai Capital UK Limited	UK	50.01	50.01
Volvo Car Financial Services UK Limited	UK	50.00	50.00

The investment in the joint ventures is stated at cost at £61,506,000 (2019: £27,506,000). The remaining proportions of ordinary shares in the joint ventures are held as follows:

Hyundai Capital UK Limited	Proportion of ownership interest %	Proportion of voting power held %
Hyundai Capital Services Inc	29.99	29.99
Hyundai Motor UK Limited	10.00	10.00
Kia Motors UK Limited	10.00	10.00

Volvo Car Financial Services UK Limited	Proportion of ownership interest %	Proportion of voting power held %
Volvo Car Corporation	50.00	50.00

Neither Hyundai Capital UK Limited nor Volvo Car Financial Services UK Limited has paid a dividend to the Company (2019: £nil).

The registered office of Hyundai Capital UK Limited is London Court, 39 London Road, Reigate, Surrey, United Kingdom, RH2 9AQ.

During the year, the Company purchased a 50% interest in Volvo Car Financial Services UK Limited for a purchase consideration of £34,000,000. The registered office of Volvo Car Financial Services UK Limited is Scandinavia House, Norreys Drive, Maidenhead, Berkshire, United Kingdom, SL6 4FL.

20. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments receivable	
	2020 £000	2019 £000	2020 £000	2019 £000
Gross investment under finance leases:				
Within one year	1,018,046	1,161,945	820,612	948,361
In the second to fifth years inclusive	3,062,004	2,688,593	2,760,959	2,399,244
After five years	30,320	21,036	27,339	18,772
	4,110,370	**3,871,574**	**3,608,910**	**3,366,377**
Less: unearned future finance income	(404,117)	(416,663)	**-**	-
Less: expected credit loss allowance	(63,980)	(45,985)	**-**	-
Less: RV and voluntary termination provision	(33,363)	(42,549)	**-**	-
Net investment in finance lease receivables	**3,608,910**	**3,366,377**	**3,608,910**	**3,366,377**
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)	2,715,062	2,356,053		
Current finance lease receivables (recoverable within 12 months)	893,848	1,010,324		
	3,608,910	**3,366,377**		

The Company enters into instalment credit agreements which are treated as finance leasing arrangements for accounting purposes. The average term of finance leases entered into is four years and one month (2019: four years and one month).

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The rate of return on the net investment approximates to 6.99% (2019: 7.31%) per annum.

Included within finance lease receivables are Personal Contract Purchase (PCP) agreements. The PCP agreements are regulated under the Consumer Credit Act and have a final balloon payment at the end of the agreement. The customer has three contractual options at the end of the agreement. The options are:

1. to pay the final balloon payment
2. use equity as a deposit for a new vehicle by way of part exchange; or
3. hand the vehicle back to the Company.

If the Company is in agreement, then the customer may also refinance the balloon payment. This is not a contractual obligation.

As at the balance sheet date the value of the final balloon payments is £1,400,815,000 (2019: £1,199,283,000). The Directors consider that the fair value of the finance lease receivable is 1.52% higher (2019: 1.85% higher) than the carrying value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. FINANCE LEASE RECEIVABLES *(continued)*

Movements in the RV and voluntary termination provisions are as follows:

	2020 £000	2019 £000
At 1 January	**42,549**	**48,321**
Charge to income statement	1,506	5,038
Utilised	(10,692)	(10,810)
At 31 December	**33,363**	**42,549**

Amounts are received in advance from a manufacturing partner to cover potential losses from customers on PCP contracts handing-back vehicles. The level of RV provision is reduced by the estimated amount to be covered by the manufacturing partner. The maximum amount of hand-back losses covered under this arrangement in 2020 was £23,409,000 (2019: £26,895,000).

21. FINANCIAL ASSETS HELD AT AMORTISED COST

	2020 £000	2019 £000
Unsecured personal loans	804,550	786,255
Wholesale funding	716,659	569,374
Securitisation notes	96,564	196,642
Term Deposits	915,151	1,051,214
Securitisation Issuance costs	1,088	1,706
Loans due from Motor 2016-1 plc – Securitisation	5,552	8,481
Loans due from Motor 2017-1 plc – Securitisation	24,921	28,305
Loans due from PSA Finance UK Limited – Subsidiary	1,489,949	1,488,678
Loans due from Hyundai Capital UK Limited - Joint Venture	2,236,711	2,199,327
Loans and receivables	**6,291,145**	**6,329,982**
Less: Expected credit loss allowances on unsecured personal loans	(5,119)	(4,231)
Less: Expected credit loss allowances on wholesale funding	(21,843)	(15,413)
Total	**6,264,183**	**6,310,338**

The performance of loans and receivables are analysed as follows:

	2020	2020 £000	2019	2019 £000
Not impaired:				
Neither past due or impaired	99.9%	6,284,288	99.9%	6,323,811
Past due and performing assets:				
Up to 3 months	0.07%	4,636	0.07%	4,181
Past due and non-performing assets:				
3 to 6 months	0.03%	2,220	0.03%	1,990
Loans and advances to customers	**100.0%**	**6,291,144**	**100.0%**	**6,329,982**
Less: Impairment allowances on unsecured personal loans		(5,118)		(4,231)
Less: Impairment allowances on wholesale funding		(21,843)		(15,413)
Loans and advances to customers net of impairment loss reserves		**6,264,183**		**6,310,338**
Analysed as:				
Non-current loans and receivables (recoverable after 12 months)		2,632,735		2,831,760
Current loans and receivables (recoverable within 12 months)		3,631,448		3,478,578
		6,264,183		**6,310,338**

The Directors consider that the fair value of loans and receivables is 0.47% higher (2019: 1.37% lower) than the carrying value.

All loans to third parties are to private individuals and companies and are at fixed rates, the average effective interest rate is 6.98% (2019: 7.26%). All loans are made in UK sterling. Loans and receivables to third parties include amounts receivable after twelve months totalling £555,814,000 (2019: £469,686,578).

The wholesale funding balance includes dealer stocking and dealer overdrafts, these are at variable rates and are repayable within twelve months. An allowance has been made for expected credit losses of £21,843,000 (2019: £15,413,000). Included within financial assets at 31 December 2020 was £394,943,000 of wholesale lending to Volvo dealers. As described in the post balance sheet events note 35, this wholesale lending was transferred at book value to the Volvo joint venture on 18th January 2021. At the 2020 year-end the assets were not available for immediate sale given certain regulatory and operational requirements had not been satisfied. As a result, the assets have not been separately disclosed as held for sale assets under IFRS 5.

21. FINANCIAL ASSETS HELD AT AMORTISED COST *(continued)*

The Motor 2016-1 plc, Motor 2017-1 plc and PSA Finance UK Limited are consolidated into the Santander UK plc Group financial statements. Please refer to note 1, securitisation transactions and investment in subsidiary.

The entity Hyundai Capital UK Limited is not fully consolidated as it does not meet the accounting definition of a subsidiary. The Company does not prepare group accounts. The share of profit from the entity Hyundai Capital UK Limited is included in the consolidated financial statements of Santander UK Plc Group. The Company has amounts on deposit with Santander UK Plc of £915,151,000 (2019: £1,051,214,000).

22. TRADE AND OTHER RECEIVABLES

	2020 £000	2019 £000
Trade receivables	44,255	29,540
Tax and social security	946	140
Contract hire deferred commission	12,021	-
Prepayments	1,641	1,056
Total	**58,863**	**30,736**

	2020 £000	2019 £000
Non-current	5,788	9,454
Current	53,075	21,282
Total	**58,863**	**30,736**

The Directors consider that the carrying amount of trade receivables approximates to their fair value.
Prepayments include amounts after twelve months of £nil (2019: £11,000).

23. 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:

	Other temporary differences £000	Accelerated capital allowances £000	Total £000
At 1 January 2019	1,159	(7,881)	(6,722)
Income statement credit	(454)	10,185	9,731
At 31 December 2019 and 1 January 2020	**705**	**2,304**	**3,009**
Income statement credit	(117)	9,422	9,305
At 31 December 2020	**588**	**11,726**	**12,314**

Deferred tax assets are attributable to the following items:

	Balance Sheet 2020 £000	Balance Sheet 2019 £000	Income Statement 2020 £000	Income Statement 2019 £000
Deferred tax assets:				
Accelerated book depreciation	**11,726**	2,304	**9,422**	10,185
IFRS 9 transitional adjustments	**131**	134	**(3)**	(34)
Other temporary differences	**457**	571	**(114)**	(420)
Total deferred tax	**12,314**	**3,009**	**9,305**	**9,731**

The deferred tax assets scheduled above have been recognised in the Company on the basis that sufficient future taxable profits are forecast within the foreseeable future, 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 assets are expected to be utilised after more than one year.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 £000	2019 £000
Fair value of derivative financial instruments based on level 2 internal model:		
Interest rate swap – Motor 17-1 plc	23	(182)
Cross currency swap asset – Motor 17-1 plc	-	5
Total derivatives financial instruments – assets/ (liabilities)	**23**	**(177)**

As a result of the Company diversifying its borrowings portfolio by entering into securitisations, a number of interest rate and cross currency swaps have been entered into.

The Company has entered into a basis rate swap to hedge an interest rate mismatch with Santander UK plc, linked to the securitisation entity Motor 17-1 Plc. The swap will be in force until the earlier of the notes' maturity date of June 2022 or such earlier date on which the swap is terminated. The swap is not designated into a hedge accounting relationship. A cross currency swap has previously been entered into to mitigate a currency mismatch as some of the notes are transacted in US dollars.

25. INVENTORIES

	2020 £000	2019 £000
Inventories of contract hire vehicles	21,722	13,873
Total	**21,722**	**13,873**

Inventories relates to the vehicles returned at the end of the contract hire period that are currently awaiting resale.

26. TRADE AND OTHER PAYABLES

	2020 £000	2019 £000
Trade payables	55,957	57,290
Advance rentals for contract hire	17,889	19,505
Financial guarantee contract with Motor Securities 2018-1 DAC	8,675	13,098
Accruals and other deferred income	15,935	15,429
Provisions for restructuring	223	-
Total	**98,679**	**105,322**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs.

Included within trade payables are amounts from a manufacturing partner to cover potential hand-back losses of £23,409,000 (2019: £26,894,000).

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

The entire balance of trade and other payables are classed as amounts payable within one year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

27. LEASE LIABILITIES

	2020 £000	2019 £000
Property lease liability	11,026	11,686
Vehicle lease liability	485	552
Total	**11,511**	**12,238**

	2020 £000	2019 £000
Analysed as:		
Non-current	10,453	11,159
Current	1,058	1,079
Total	**11,511**	**12,238**

The Company has adopted IFRS 16 Leases from 1st January 2019. The balance above represents the closing liability linked to the operating leases that the Company has committed to. The corresponding assets are shown within note 16.

28. BANK OVERDRAFTS AND BORROWINGS

	2020 £000	2019 £000
Amounts due to Santander UK plc Group companies	8,756,584	8,299,028
Amounts due to Hyundai Capital UK Limited	903,259	905,743
Amounts due to Motor 2016-1 plc	68,667	208,005
Amounts due to Motor 2017-1 plc	120,497	282,092
Amounts due to Motor Securities 2018-1 Designated Activity Company	367	189
Total	**9,849,374**	**9,695,057**
These borrowings are repayable as follows:		
On demand or within one year	5,999,674	5,092,784
Amounts due after one year	3,849,700	4,602,273
Total	**9,849,374**	**9,695,057**

Amounts due to Santander UK plc Group companies include amounts for borrowings and accrued interest totalling £8,753,516,897 (2019: £8,296,086,969). Borrowings are fixed rate interest bearing; the average weighted interest rate as at the balance sheet date is a fixed rate of 0.88% (2019: 0.89%). Borrowings are repaid over terms agreed within the credit facility contract.

Amounts due to Santander UK plc Group companies relate to intercompany recharges totalling £3,066,480 (2019: £2,940,460) and are repayable on demand. The Directors consider that the fair value of the amounts owed to group undertakings is 1.02% higher than the carrying value (2019: 1.85% higher).

No interest is incurred on intercompany recharges.

Hyundai Capital UK Limited has amounts on deposit of £900,000,000 (2019: £900,000,000) plus a balance owing from the Company to the joint venture of £3,259,000 (2019: £5,743,000).

Amounts owed to Motor 2016-1 plc relate to assets securitised in December 2016. Amounts due to Motor 2016-1 plc include amounts repayable after twelve months totalling £nil (2019: £123,676,217). No interest is incurred on the securitised asset balances.

Amounts owed to Motor 2017-1 plc relate to assets securitised in September 2017. Amounts due to Motor 2017-1 plc include amounts repayable after twelve months totalling £nil (2019: £63,664,847). No interest is incurred on the securitised asset balances.

All bank overdrafts are held in UK sterling and are repayable on demand. The Directors consider that the carrying amount of bank overdrafts represents their fair value.

29. SHARE CAPITAL

	2020 £000	2019 £000
Issued and fully paid:		
150,000,000 (2019: 150,000,000) ordinary shares of £1 each	**150,000**	150,000

30. NOTE TO THE CASH FLOW STATEMENT

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Operating profit	112,158	94,625
Adjustments for:		
Finance costs	133,343	178,186
Depreciation on fixtures, fittings and operating leases	83,709	85,178
Loss on disposal of operating lease assets	1,555	5,466
Increase/ (decrease) in impairment losses	16,127	(5,536)
Operating cash flows before movements in working capital	**346,892**	**357,919**
Purchase of operating lease assets	(184,606)	(225,353)
Proceeds on disposal of operating lease assets	102,379	61,279
Increase in finance lease receivables	(251,341)	(309,366)
(Increase)/ decrease in loans and receivables	(58,571)	167,872
Intercompany lending to Joint Ventures	(2,944,423)	(3,230,048)
Repayments received on intercompany lending to Joint Ventures	2,905,768	3,042,670
(Increase)/ decrease in trade receivables	(28,127)	14,284
Increase in inventories	(7,849)	(13,040)
Decrease in payables	(7,865)	(4,912)
Cash used in operations	**(127,743)**	**(138,695)**
Tax paid	(26,401)	(18,359)
Net cash used in operating activities	**(154,144)**	**(157,054)**

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

31. CONTINGENT LIABILITIES

The Company, along with certain other subsidiaries of Santander UK plc, is a party to a capital support deed dated 14 December 2012 with Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited (each a regulated entity). The Capital Support Deed supports a core UK group for the purposes of section 10 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) of the FSA Handbook. Under section 10.8 of BIPRU, exposures of each regulated entity to other members of the core UK group, including the Company, are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources or repayment of liabilities to a regulated entity to ensure that a regulated entity continues to comply with requirements relating to capital resources and risk concentrations. The amount of any transfer is limited to the sum of the Company's capital resources which would not cause the value of its liabilities to exceed the value of its assets, taking into account all of its contingent and prospective liabilities. The Capital Support Deed also provides that, in certain circumstances, funding received by the Company from other parties to the Capital Support Deed becomes repayable on demand, such repayment being limited to the Company's available resources.

32. RETIREMENT BENEFIT SCHEMES

The Company participates in the Santander UK Group defined benefit pension schemes in operation. There is no contractual agreement of stated policy for charging the net defined benefit cost. The contribution to be paid by the Company is calculated as the contributions made by Santander UK plc to the schemes in respect of the Company's employees. An amount of £2,749,000 (2019: £2,426,000) was recognised as an expense for the contributions and is included in note 9. Of this amount £342,000 was recognised for key management personnel (2019: £295,000). The details of the pension scheme appear in the financial statements of Santander UK plc.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

33. RELATED PARTY TRANSACTIONS

Trading transactions

During the year, the Company entered into the following transactions with related parties:

	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Entities with significant influence over the Company- Santander UK plc	**3,333**	19,430	**91,743**	112,002	**988,791**	1,149,083	**8,787,631**	8,350,271
Other related parties: Gesban UK Limited	**-**	-	**10**	14	**-**	-	**-**	-
Other related parties: Santander Technology Limited	**-**	-	**2,950**	3,631	**-**	-	**2,297**	2,500
Other related parties: Santander Global Technology Limited	**-**	-	**1,460**	1,497	**-**	-	**1,265**	1,293
Other related parties: Santander UK Operations Limited	**-**	-	**10**	46	**-**	-	**28**	-
Other related parties: Motor 2015-1 plc	**-**	24	**-**	-	**-**	-	**-**	-
Other related parties: Motor 2016-1 plc	**13,588**	29,606	**17,145**	34,369	**49,977**	145,527	**120,497**	282,092
Other related parties: Motor 2017-1 plc	**19,226**	38,888	**19,766**	40,219	**77,060**	87,900	**68,667**	208,005
Other related parties: Motor Securities 2018-1 Designated Activity Company	**-**	-	**-**	189	**-**	-	**367**	189
Joint venture: Hyundai Capital UK Limited	**28,880**	28,942	**-**	-	**2,236,711**	2,199,327	**903,259**	905,743
Subsidiary undertaking: PSA Finance UK Limited	**32,941**	34,764	**120**	1,774	**1,489,949**	1,488,678	**-**	-
Other related parties: Santander Global Consumer Services Limited	**-**	-	**3,752**	3,690	**-**	-	**64**	-

Amounts owed to Santander UK include borrowings, intercompany recharges and bank balances. See note 28 for further detail.

Treasury borrowing costs including the interest rate derivatives are all recharged.

All transactions with Motor 2015-1 plc, Motor 2016-1 plc and Motor 2017-1 plc relate to the securitisations which commenced in March 2015, December 2016 and September 2017 respectively. The entities Motor 2016-1 plc and Motor 2017-1 plc are still trading as at the reporting date.

With the exception of the amounts due to and amounts due from the related parties in connection with securitisations, all other related party balances are unsecured.

Amounts owed by Hyundai Capital UK Limited include treasury borrowings and accrued interest of £2,237,000 (2019: £2,199,000). Amounts owed to Hyundai Capital UK Limited include management recharges for borrowings, staff, system and overheads of £3,259,000 (2019: £5,742,000). Hyundai Capital UK Limited has amounts on deposit of £900,000,000 (2019: £900,000,000).

Amounts owed by PSA Finance UK Limited include treasury borrowings of £1,489,500,000 (2019: £1,487,000,000), accrued interest for borrowings of £449,000 (2019: £1,678,000).

Directors' transactions

Directors and key management personnel have undertaken the following transactions with the Company:

Remuneration of key management personnel

The remuneration of the management board, which consists of seven employees (2019: eight) who act as the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration of the individual Directors are provided in Note 11.

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Short-term employee benefits	1,950	2,215
Post-employment benefits	342	295
	2,292	**2,510**

Of the Key Management Personnel that served during the year, two Directors were remunerated in relation to their services to the Company (2019: two).

33. RELATED PARTY TRANSACTIONS *(continued)*

Finance leases and unsecured personal loans

Finance leases and unsecured personal loans are made to Directors and key management personnel in the ordinary course of business, with terms prevailing for comparable transactions and on the same terms and conditions (including interest and repayment features) as applicable to other employees within the Company. Such loans do not involve more than the normal risk of collectability or present any unfavourable features.

Balance with Directors, Key Management Personnel

Directors, Key Management Personnel and their connected persons have undertaken the following transactions with the Group.

	Number of directors/key management personnel	Amounts in respect of directors and key management personnel £000
Balances outstanding at 1 January 2020	2	25
Net movement during the year	1	40
Balances outstanding at 31 December 2020	**3**	**65**

There were no other transactions with directors or key management personnel.

34. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Santander UK plc, a company registered in England and Wales and which owns 100% of the share capital.

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

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

35. POST BALANCE SHEET EVENT

The Wholesale lending to the Volvo dealer network was transferred at cost on the 18$^{th\ of}$ January 2021 to Volvo Car Financial Services UK Limited. The amount transferred as at that date was £390,654,000 and accordingly the wholesale lending has significantly reduced post year end. As at the 2020 year-end the assets were not available for immediate sale given certain regulatory and operational requirements had not been satisfied. As a result, the assets have not been separately disclosed as held for sale assets under IFRS 5.