

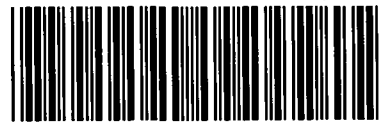
SANTANDER CONSUMER (UK) PLC

Registered in England and Wales  
No: 02248870

ANNUAL REPORT AND FINANCIAL  
STATEMENTS

FOR THE YEAR ENDED  
31 DECEMBER 2023

SATURDAY



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## STRATEGIC REPORT

The Directors of Santander Consumer (UK) Limited (the Company) submit this Strategic report together with their Directors' report and the audited financial statements for the year ended 31 December 2023.

The Company is part of the Santander UK group, which comprises Santander UK Group Holdings plc and its subsidiaries (the Santander UK Group or Santander UK). The Company together with Santander UK plc and other subsidiaries of Santander UK plc form the Ring-Fenced Bank group (the RFB Group). Santander UK plc is the immediate parent company and is incorporated in the United Kingdom. The ultimate parent company is Banco Santander, S.A., a company incorporated in Spain. Banco Santander, S.A. and its subsidiaries are referred to in this report as the "Santander Group".

### Principal Activities and review of the Company's Business

The principal activity of 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, Personal Contract Purchase (PCP) agreements and unsecured agreements with guaranteed future values (GFV). Further details are in Finance Lease Receivables note 19. Wholesale funding facilities are also provided to dealers.

In 2023 the UK car market registered 1.90m new cars (2022: 1.61m) which was an 18% increase from 2022. Growth was entirely driven by fleet investment as the previous year's supply constraints eased and helped fulfil pent-up demand. Private consumer demand remained stable after a strong recovery in 2022, with cost of living pressures and high interest rate restraining growth.

Key performance indicators for the Company are summarised below:

Key Performance Indicators		FY 2023	FY 2022	Difference
Total Manufacturers (excluding the Joint Venture entities)	Units	8	9	-
<b>Retail</b>				
<b>New Vehicles</b>				
Total Advances	£m	593	684	(91)
	Units	33,509	36,874	(3,365)
Average Advance	£	17,697	18,538	(841)
<b>Used Vehicles</b>				
Total Advances	£m	1,300	1,779	(479)
	Units	79,409	107,813	(28,404)
Average Advance	£	16,373	16,499	(126)
<b>Contract Hire</b>				
Additions	£m	85	185	(100)
	Units	3,366	7,933	(4,567)
Profit Before Tax	£m	185.6	163.5	22.1

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 BYD, MG Cars, KTM, Husqvarna, Yamaha, INEOS, Volvo, Polestar, Hyundai, Kia and Genesis cars. In total the Company has eight white label agreements (2022: nine) and two joint ventures (2022: two).

For new vehicle finance, the average advance was relatively stable at £17,697 per vehicle with a small decrease on the prior year average advance of £841. In 2023, new vehicle finance saw a reduction of £91m in advances, this was largely impacted by the mix of Retail/Fleet in the market.

The Company continues to optimise its core used car business, whilst continuing to seek further dealer and manufacturer partnerships. Used car finance shows a reduction in volumes of 28,404 agreements. Overall, total volumes advanced decreased by £479m, with the pressure on borrowing costs, The Company chose to focus on profitability and capital creation as opposed to Balance Sheet growth.

The Company has two joint ventures; Hyundai Capital UK Limited and Volvo Car Financial Services UK Limited. These are consolidated on an equity basis in the accounts of Santander UK plc (the "RFB Group"). Together with its Joint Ventures, the Company was a leading Independent Finance Provider for new and used motor vehicles in the United Kingdom in 2023.

Profit before tax for the Company has increased by £22m year on year, with £50m of this being linked to the dividend received from Hyundai Capital UK Limited (HCUK) in 2023, plus movements in credit impairment of £8.2m a reduction from the prior year. The Statement of Comprehensive Income on page 10 provides the detail to support the profit before tax of £185.6m (2022: £163.5m).

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 Santander Group manages its operations on a divisional basis. The performance of the divisions of the Santander UK Group, which include the Company, are discussed in the Santander UK Group Holdings plc's Annual Report which does not form part of this Report.

## STRATEGIC REPORT *(continued)*

### Principal Activities and review of the Company's Business (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 Banco Santander, S.A. Group 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 were deliverable in 2023 and others such as the IRB Approach are longer term, and we will continue to work on them over the next few years.

In 2019, the Financial Conduct Authority (FCA) issued a report following a thematic review of the motor finance market which identified that some commission models created the potential for consumer harm. We welcome the FCA's work and have been engaging proactively with regulators and the FOS for some time. The Company has concluded that an outflow of economic benefits in respect of this matter is not probable at this stage, as described in more detail in note 30.

### Section 172 Statement

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

As part of the Santander UK Group, the Company adheres to the policies and standards set by the Santander UK Group Holdings plc Board. To support efficiency and ensure a consistent approach, engagement with stakeholders on issues and decisions which have an impact across the wider Santander UK Group is conducted at UK-Group level. You can find out more about the engagement undertaken with key stakeholder groups during the year and how their interests were considered as part of the Santander UK Group Holdings plc Board's deliberations and decision making in the Santander UK Group Holdings plc 2023 Annual Report, which does not form part of this report.

As a Board, we take all appropriate steps to ensure that we consider the likely impact of our decisions in the long-term, as well as the interests of the Company's stakeholders. The Santander UK Group Holdings plc Board, along with the Company's Board, has identified five key stakeholder groups whose interests and needs it regularly considers. These stakeholders are our customers, people, investors, regulators, and communities. While not a stakeholder in the strictest sense, we also take into account our impact on the environment and climate given its criticality to life and business in general, and as required by s172. Set out below are some examples of how we have paid due regard to the interests of these stakeholders during the year under review.

A key way that we promote the long-term success of the Company for the benefit of its shareholder, is by ensuring our decisions are made in accordance with the agreed Group strategy. We also regularly review management information on the progress made by the Company in delivering on this strategy, as well as reporting on business, financial and operational performance and key risks and compliance issues which supports us in staying sighted on stakeholder outcomes and feedback.

Our customers are at the centre of the Company's business and we continually monitors efforts by management to enhance the quality of service that they receive. The Company essentially has two customer groups: the businesses through which its financial products are distributed (Dealers), and the end customers who benefits from the financial product (Retail Customers). During 2023, we spent a significant amount of time reviewing and discussing the Company's performance in favour of these customer groups, particularly in terms of ensuring that we meet our customers' needs through the products and services that we offer and, ultimately, ensure good customer outcomes in line with the Consumer Duty (see below). In particular for 2023, it was (and continues to be) important for us to ensure that our customers are not unduly impacted when the various change programmes in progress are implemented, and we maintain appropriate oversight of those programmes accordingly. Supporting our vulnerable customers is also of high importance to the Company, and we have encouraged management to continue to work proactively to identify and engage with our vulnerable customers so that we can ensure that they are supported appropriately. We measure the satisfaction of our Dealers via a Net Promoter Score (NPS) and we are pleased that our NPS and Dealer retention remain high.

Overseeing preparations for the introduction of the FCA's Consumer Duty was a key area of focus for us in 2023. This work was, and continues to be, critical not only to ensuring that the Company continues to safeguard the interests of our customers but also to meeting the expectations of our regulators. We reviewed updates on progress in implementing the Consumer Duty at each quarterly meeting in 2023. At our July 2023 meeting, we were pleased to discuss an implementation update which confirmed that the Company would be in compliance with the First Phase of the Consumer Duty rules in time for the 31 July 2023 deadline. Since then, our attention has focused on ensuring all Phase One actions are complete, implementing Phase Two in time for the 31 July 2024 deadline and moving from implementation into business as usual compliance. Consumer Duty has been a significant project for the business to complete, and within ambitious timelines, and we thank management for their hard work and dedication.

Our Regulators are key stakeholders as they provide us with our licence to trade. As such, we encourage management to engage with them proactively and share information transparently. We have continued to receive quarterly compliance and risk reports giving us an holistic view of the business' risk and regulatory profile which allows us to prioritise our discussions appropriately. In 2023, the Board spent time on a number of important regulatory matters in addition to the Consumer Duty, such as improving our financial crime controls which will help to protect our business, customers and communities from financial and economic crime. We were pleased to see good progress made in 2023 and we will continue to spend time on this in 2024.

## STRATEGIC REPORT *(continued)*

### Section 172 Statement (continued)

Our people and the culture of the organisation are key to the business' success and the Directors spent a significant proportion of its formal Board meeting time in 2023 assessing both employee engagement and culture. As part of this, we have been overseeing a Company-wide culture programme which aims to align our culture more closely with that of the wider Santander Group and the requirements of the Consumer Duty. The culture programme has sought to understand the views of all our employees and to take appropriate action in response. While the progress that is being made is evident, culture shifts take time and the culture of all organisations is an evolution. Accordingly, we expect the culture programme to be ongoing in the short to medium term. The Directors and the Directors of Santander UK plc have also engaged with employees outside of the Board meetings in order to hear their views first hand.

In terms of the environment, the Santander UK Group Holdings plc Board Responsible Banking Committee oversees the climate strategy and transition planning for the entire Santander UK Group. The Board of Santander UK Group Holdings plc approved an initial climate transition plan in 2023, which incorporates transition plans for the Company's business. You can read more about the initial climate transition plan in the Santander UK Group Holdings plc 2023 Annual Report. In April 2024, the Board approved the Company's variable pay scorecard, which includes a green finance target.

#### 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. The Santander UK 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 Santander UK Group's wider lending portfolio which is why policies on lending to carbon-intensive sectors have been tightened.

The Santander UK 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 Santander UK Group actively contributes to Banco Santander, S.A.'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 Santander 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.

Climate change is integrated into the Santander UK Group's risk framework. The Santander UK 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, S.A. provides guidance and tools to analyse potential credit risk impacts relating to climate change, including identifying, assessing, managing and reporting climate-related risks. The Santander UK Group also adopted the general sustainability policy from Banco Santander, S.A. which now incorporates the previously separate climate change policy. All UK processes and policies have been updated to reflect this.

Banco Santander, S.A. 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, S.A. Climate Finance Report. Details of our operational carbon emissions can be found on page 27 of the unaudited Santander UK Group Holdings plc ESG Supplement 2023.

Our related manufacturing companies are actively engaged in the development of energy efficient vehicles. Hybrid electric vehicles (HEVs) recorded robust growth, up 27.1% to reach 12.6% market share. Plug-in hybrids (PHEVs) also enjoyed a strong year with a 39% increase in registrations to account for 7.4% of the market. Battery electric vehicles (BEV's) uptake reached a record volume, up by almost 50,000 units with the 314,687 new registrations. Overall, BEV's accounted for one in six new cars registered in 2023, with the majority taken by business and fleet buyers who benefit from compelling tax incentives. In contrast, one in 11 private buyers chose a BEV. Since the end of the Plug-in Car Grant in June 2022, the UK is the only major European market with no consumer BEV purchase incentives but is now also the only market with mandated minimum targets for new Zero-emission vehicles (ZEV) registrations. The UK Government recently set out its path to reaching zero emission vehicles by 2035 and is investing to ensure the UK is a major maker of electric vehicles. The Company continues to look for ways to support this transition.

The Santander UK Group Holdings plc is implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and taking action to meet the expectations set by the PRA, Bank of England and FCA. This requires wide-ranging collaboration both across the Santander group and externally to develop the tools and methodologies needed.

#### Uncertain macroeconomic and geopolitical environment

Risks arising in these areas remain in the top ranked areas of concern for the wider Santander UK Group. UK political risks increased significantly in 2023, as the focus is drawn to an upcoming General Election. Key areas of policy focus for the Company include: related markets (rates) and economic impacts; taxation and regulation.

2024 is also an Election year in the US and the Company will consider the potential impacts on the geopolitical environment from this that could arise. Broader considerations include conflicts in Ukraine and the Middle East, as well as the strengthening of political, trade and security ties between a number of developing nations with large and growing economies. These developments can have significant impacts on supply chains and the cybersecurity threat environment, since the Company is reliant on services provided by third parties that have overseas operations.

## STRATEGIC REPORT *(continued)*

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

### 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



VT Hill  
25 April 2024

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 2023.

### Principal activities

The Company's principal activities and a fair review of the Company's business is set out in the Strategic Report.

### 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 £154,146,000 (2022: profit £129,872,000).

The Company paid a final dividend during the year of £65,000,000 in respect of the prior year (2022: £125,000,000). The Directors do not recommend the payment of a final dividend in respect of the current year (2022: £nil).

### Post balance sheet events

There were no adjusting or significant non-adjusting events that have occurred between the 31 December 2023 and the date of authorisation of the financial statements.

### 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	
C Palmer	
M Dayal	(resigned 27 September 2023)
MP Lewis	(appointed 1 January 2023)
DE Roberts	(resigned 31 January 2023)
TGS Hinton	(appointed 13 September 2023)

### Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

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

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

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

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, 19, 20, 23 and 25 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 Company has adequate financial resources and has the continued financial support of its parent, Santander UK plc. Santander UK plc provides the Company with the majority of its funding requirements. It is expected that Santander UK plc will continue to provide this funding for future years and the Directors have concluded that this funding is sufficiently certain that there is no significant doubt over the going concern status of the Company. In reaching this conclusion the Directors have had regard to a number of factors including the strong financial position of Santander UK plc and the wider Santander Group, the regulatory construct under which Santander UK plc operates, its role as both a shareholder and funding entity to the Company, the commitments made as part of the joint venture agreements of the Company, how the Company contributes to the overall Santander UK plc Group profits and the strong asset base of the Company.

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.

### System Development

The Company has developed a replacement mainframe IT system for its retail conditional sale and personal loan agreements. The replacement mainframe was launched towards the end of 2023. Further disclosure can be found in note 15.

The Company has started a long-term project to develop IRB compliant risk models and plans to bring contract hire in-house in 2027.

### Financial Instruments

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

The financial risk management objectives policies of the Santander UK Group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure 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.

Further disclosures regarding 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 unaudited Pillar 3 disclosures are available in the Santander UK Group Holdings plc'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 Santander UK 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 the Santander 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 Santander Group.

The Santander UK 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 Group, which is committed to achieving high standards of governance. Santander UK Group Holdings plc, the Company's ultimate UK-incorporated parent company applies the UK Corporate Governance Code 2018 in a manner appropriate for its ownership structure, although, as a non-premium listed company, it is not obliged to do so. The Company has not applied a corporate governance code during the year and has instead adopted the Santander UK Corporate Governance Framework (CGF) and Subsidiary Governance Framework (SGF), which it believes is the most appropriate arrangement for the Company as a wholly owned subsidiary. The CGF sets out the key governance principles applicable to Santander UK subsidiaries, including guidelines on delegation of authority, escalations and managing conflicts of interest. The SGF builds upon these governance principles and describes the minimum standards required of Santander UK subsidiaries, ensuring a consistent but risk-based approach is applied. The SGF articulates the roles and responsibilities of subsidiary boards and executive management; the governance principles to facilitate parent oversight of the subsidiaries; and approval paths for key business decisions.

The Board is responsible for the overall leadership of the Company which it fulfils in accordance with the overarching strategic agenda, risk appetite, culture, values and policies set by the Santander UK Group Holdings plc Board, to ensure alignment across the Santander UK Group. The CGF provides for the Company to review its own strategy and risk appetite, within the parameters set by the Santander UK Group Holdings plc Board. During these discussions, the Board considers its respective stakeholder groups, which includes its customers, employees and its shareholder. The Board has approved a schedule of matters reserved for its consideration and decision, which it reviews on an annual basis.

The structure and composition of the Board is appropriate for the scale, type and complexity of the Company's business and the Directors have the necessary skills, knowledge and experience to oversee the business effectively. The Board has appointed an independent non-executive director, who brings independent challenge to Board discussions. On appointment, Directors receive a tailored induction to ensure they are fully briefed on the Company's business strategy and operations, governance processes and risk profile, as well as their duties as Directors. Conflicts of interests for Directors are managed in accordance with the Santander UK Conflicts of Interest Policy.

As a member of the Santander UK Group, the Company's business is also subject to the oversight of the Santander UK Group Holdings plc and Santander UK plc Board and Board Committees. For more on the corporate governance arrangements of the Santander UK Group, which includes the Company, see the Santander UK Group Holdings plc 2023 Annual Report, which does not form part of this report.

### Streamlined Energy and Carbon Reporting (SECR)

SECR is considered and managed at a Santander UK Group Holdings plc 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 2023 Annual Report.

### Independent Auditors

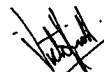
Each of the Directors as at the date of approval of this report confirms that:

- 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



VT Hill  
Director

25 April 2024

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 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2023; 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 9, Administrative expenses, we have provided no non-audit services to the company in the period under audit.

### 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 its ability and intent to continue to provide finance to the company; and
- 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.

## 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 2023 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 in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to 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 and the Corporation Tax Act 2010. 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;
- Identifying and, where relevant, testing journal entries with a higher fraud risk, for example those posted by senior management or those with unusual account combinations; and
- 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](http://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 (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
26 April 2024

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2023

	Note	2023 £000	2022 £000
Net interest and similar income	5	555,052	337,296
Finance costs	6	(400,433)	(156,371)
<b>Net interest income</b>		<b>154,619</b>	<b>180,925</b>
Other operating income	7	158,506	163,380
Administrative expenses	9	(162,551)	(157,536)
Credit Impairment losses and provisions	8	(15,055)	(23,229)
<b>Operating profit</b>		<b>135,519</b>	<b>163,540</b>
Investment gains	12	54	4
Investment income	10	50,010	-
<b>Profit before tax</b>		<b>185,583</b>	<b>163,544</b>
Tax	13	(31,437)	(33,672)
<b>Profit for the year</b>		<b>154,146</b>	<b>129,872</b>
<b>Total comprehensive income for the year</b>		<b>154,146</b>	<b>129,872</b>

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 2023

	Note	2023 £000	2022 £000
<b>Non-current assets</b>			
Intangible assets	15	10,656	6,374
Property, plant and equipment	16	10,515	10,513
Operating lease assets	17	483,099	570,624
Investment in joint venture	18	76,506	76,506
Finance lease receivables	19	3,265,003	3,229,649
Financial assets held at amortised cost	20	2,957,153	3,051,041
Trade and other receivables	21	8,583	15,330
Deferred tax asset	22	1,238	972
Derivative financial instruments	23	1,633	7
		<b>6,814,386</b>	<b>6,961,016</b>
<b>Current assets</b>			
Finance lease receivables	19	1,201,825	1,256,598
Financial assets held at amortised cost	20	3,514,033	2,877,475
Trade and other receivables	21	49,730	40,788
Derivative financial instruments	23	1,153	7
Macro hedge interest rate risk	23	1,049	-
Inventories	24	22,641	17,491
Cash and cash equivalents	14	55,002	26,535
		<b>4,845,433</b>	<b>4,218,894</b>
<b>Total assets</b>		<b>11,659,819</b>	<b>11,179,910</b>
<b>Current liabilities</b>			
Trade and other payables	25	(117,532)	(164,870)
Lease liabilities	26	(2,476)	(1,308)
Derivative financial instruments	23	(709)	-
Macro hedge interest rate risk	23	-	(10)
Bank overdrafts and borrowings	27	(4,572,074)	(4,416,463)
Corporation tax		(24,368)	(27,502)
		<b>(4,717,159)</b>	<b>(4,610,153)</b>
<b>Net current assets/(liabilities)</b>		<b>128,274</b>	<b>(391,259)</b>
<b>Non-current liabilities</b>			
Bank overdrafts and borrowings	27	(5,875,481)	(5,590,847)
Lease liabilities	26	(8,180)	(9,393)
Derivative financial instruments	23	(340)	(4)
		<b>(5,884,001)</b>	<b>(5,600,244)</b>
<b>Total liabilities</b>		<b>(10,601,160)</b>	<b>(10,210,397)</b>
<b>Net assets</b>		<b>1,058,659</b>	<b>969,513</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	28	150,000	150,000
Retained earnings		908,659	819,513
<b>Total equity</b>		<b>1,058,659</b>	<b>969,513</b>

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

The financial statements on pages 11 to 43 were approved by the Board of Directors and signed on its behalf by:



VT Hill  
Director  
25 April 2024

**CASH FLOW STATEMENT**

For the year ended 31 December 2023

	Note	2023 £000	2022 £000
Net cash generated from/ (used in) operating activities	29	280,806	(1,136,619)
<b>Investing activities</b>			
Investment in joint venture	18	-	(14,986)
Dividends received from joint venture	10	50,010	-
Purchase of intangible assets	15	(4,281)	(3,586)
Purchase of property, plant and equipment	16	(20)	(71)
Net cash generated from/ (used in) investing activities		45,709	(18,643)
<b>Financing activities</b>			
Interest paid		(400,433)	(156,371)
Principal paid on lease liabilities		(1,892)	(1,486)
Repayments of obligations on securitised notes	27	(522,372)	(31,505)
Cash flows from derivative financial instruments		(1,697)	(9)
Cash flow from securitisations		550,000	-
Dividends paid		(65,000)	(125,000)
New deposits		(1,299,777)	(438,583)
Repayment of deposits		1,030,508	402,230
Increase in loans	27	485,030	4,784
Proceeds from borrowings		5,234,743	6,149,648
Repayment of borrowings		(5,307,158)	(4,638,833)
Net cash (used in)/ generated from financing activities		(298,048)	1,164,875
Net increase in cash and cash equivalents		28,467	9,613
Cash and cash equivalents at beginning of year		26,535	16,922
Cash and cash equivalents at end of year	14	55,002	26,535

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
	Note 28		
Balance at 1 January 2022	150,000	814,641	964,641
Profit and total comprehensive income for the year	-	129,872	129,872
Dividends paid	-	(125,000)	(125,000)
Balance at 31 December 2022	150,000	819,513	969,513
Balance at 1 January 2023	150,000	819,513	969,513
Profit and total comprehensive income for the year	-	154,146	154,146
Dividends paid	-	(65,000)	(65,000)
Balance at 31 December 2023	150,000	908,659	1,058,659

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

### 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 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, S.A. The registered office address of the Company is Santander House, 86 Station Road, Redhill, Surrey, RH1 1SR.

These financial statements are prepared under the Companies Act 2006.

#### Basis of preparation

These financial statements have been prepared in accordance with "UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

These financial statements present information about this Company as an individual undertaking. The Company is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of IFRS 10, as the ultimate parent undertaking, Banco Santander, S.A. 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 33 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

The Company applied the amendment to IAS 1 'Presentation of Financial Statements', which requires disclosure of material rather than their significant accounting policies, in preparing the financial statements for the year ended 31 December 2022 and onwards.

No other significant new or revised pronouncements, which became effective from 1 January 2023, impacted these financial statements. All contracts currently issued by the Company fall within the scope exclusions of IFRS 17, as such, there are no accounting implications.

#### Future accounting developments

At 31 December 2023, there were no other significant new or revised pronouncements which have been issued but which are not yet effective, or which have otherwise not been early adopted where permitted.

#### Material accounting policy information

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

### 1. ACCOUNTING POLICIES *(continued)*

#### 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. The subsidy income is spread using the effective interest rate method over the expected life of the 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. Wholesale income is primarily linked to unit stocking finance along with dealer overdrafts, dealer loans and advanced commission facilities. The majority of wholesale funding income is interest income. Wholesale fee income represents unit stocking origination charges.
- Interest and fee income from loans provided to joint ventures.
- 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 lease rental income and profits on sale.
- intercompany recharges for servicing the Hyundai Capital UK Limited and Volvo Car Financial Services Limited portfolios

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 or, for vehicle sales, when the sale is completed.

#### Finance costs

Finance costs consist of interest payable to Group undertakings, amounts paid on securitisation and bank charges on overdrafts and loans. These are recognised on an accruals basis.

#### Fair value gains and losses on interest rate swaps

Fair value gains and losses on interest rate swaps are recognised at fair value through profit and loss and are included in note 12.

#### Pensions and other post-retirement benefits

The Company participates in a Group defined benefit scheme run by Santander UK Group Holdings plc. 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 3 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 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 FOR THE YEAR ENDED 31 DECEMBER 2023

**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
Vehicles	1 to 4 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 scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating income.

**Interests in unconsolidated structured entities**

SCUK has interests in structured entities which it sponsors but does not control. SCUK considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. Other than as set out below, no significant judgements were required with respect to control or significant influence. The structured entities sponsored but not consolidated by SCUK are as follows:

**(i) Credit protection entities**

SCUK has established three (2022: two) unconsolidated credit protection entities, which are Designated Activity Companies limited by shares, incorporated in Ireland. Each entity has issued a series of credit linked notes varying in seniority which reference portfolios of SCUK loans. Concurrently, these entities sell credit protection to SCUK in respect of the referenced loans and, in return for a fee, are liable to make protection payments to SCUK upon the occurrence of a credit event in relation to any of the referenced loans.

SCUK has no holdings in senior credit linked notes. Junior credit linked notes, which amounted to £178m (2022: £110m), are all held by third party investors and suffer the first losses incurred in the referenced portfolios. Funds raised by the sale of the credit linked notes are deposited with Santander UK as collateral for the credit protection.

The senior credit linked notes, along with the deposits and associated guarantees, are presented on a net basis, to reflect a legal right of set-off between the principal amounts of senior notes and the cash deposits.

The entities are not consolidated by SCUK because the third-party investors have the exposure, or rights, to all of the variability of returns from the performance of the entities. No assets are transferred to, or income received from, these entities. Since the credit linked notes (including those held by SCUK) are fully cash collateralised, SCUK's maximum exposure to loss is equal to any unamortised fees paid to the entities in connection with the credit protection outlined above.

**(ii) 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 Holding plc's policies.

The Santander UK Group Holdings plc'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 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, S.A. 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

### 1. ACCOUNTING POLICIES *(continued)*

#### Financial Instruments (continued)

##### 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.

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 bases.

##### 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 another 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

### 1. ACCOUNTING POLICIES *(continued)*

#### 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.

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 received post write off 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 estimated 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.

#### Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, non-financial assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's fair value less costs to sell and its value in use.

The carrying values of non-financial assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the recoverable amount. The carrying amount of the asset will only be increased up to the amount that would have been had the original impairment not been recognised.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

### 1. ACCOUNTING POLICIES *(continued)*

#### Finance leases

##### *The Company as a Lessor*

The Company's finance products include Conditional Sale agreements, Personal Contract Purchase (PCP) agreements and Personal Loans with Balloon after 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. Expected credit losses are recognised on finance leases at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of the lease. Further information can be found in note 3 under the section credit exposures and corresponding ECL.

##### *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 comprises of a building and cars, which are included as part of motor vehicles in note 16. 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 and the resulting changes of estimate are reflected in adjustments to the depreciation charge for the period and remaining lease term. The operating leases are also assessed at least annually for impairment.

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

#### Financial guarantee contracts

The Company entered into junior credit protection deeds with its securitisation vehicles Motor 2018-1 Securities Designated Activity Company ("DAC") on 12th December 2019, Motor Securities 2020-1 DAC on 29<sup>th</sup> November 2021 and Motor Securities 2022-1 DAC on 7<sup>th</sup> December 2022 and Motor Securities 2023-1 DAC on 23<sup>rd</sup> November 2023. These instruments meet the definition of financial guarantee contracts.

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.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance, and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. The loss allowance is recognised as a provision and charged to credit impairment losses in the income statement.

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 FOR THE YEAR ENDED 31 DECEMBER 2023

### 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 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 financial assets held at amortised cost. 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 FOR THE YEAR ENDED 31 DECEMBER 2023

**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 5.16% (2022: 5.4%) 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 £4.9m (2022: £4.2m).

Approximately 9.82% (2022: 11.6%) of Wholesale funding loan 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 £0.1m (2022: £0.2m).

Approximately 4.39% (2022: 3.4%) of Unsecured Personal loan 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 £8.8m (2022: £9.2m).

**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 or at the point of voluntary termination is worth less than anticipated. 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**

All vehicles under operating leases are returned at the end of the agreement and sold by the Company, therefore the Company is subject to this risk on the entire operating lease portfolio. 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.

During the year, the Company generated a gain on disposal of operating lease assets of £40,778,000 (2022: gain of £52,057,000).

The management team estimate the residual value of the operating lease portfolio on inception and on a quarterly basis, changes in the expected residual value result in a change to the estimated depreciation charge and this is applied prospectively. Management estimated that the residual value of the operating lease assets at inception at £367,668,000 (2022: £413,245,000). The estimated residual value has increased by £31,751,000 at 31 December 2023 (2022: increase by £46,900,000), representing an 8.64% increase (2022: 11.34% increase) when compared to the original management assumptions. This is primarily driven by the strong used car market performances which the Company has benefited from, albeit during 2023 there have been reductions in the values of electric vehicles and a more general market fall in prices later in the year, and these changes have reduced the level of net positive equity in the portfolio.

**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 judgement 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 19.

The modelled provision as at 31<sup>st</sup> December 2023 is based on management judgements of the expected future hand backs and loss rates. The right to terminate finance lease agreements is governed by the Consumer Credit Act. The number of hand backs is driven by the value of the vehicle. The customer is more likely to hand back a finance lease agreement if the value of the vehicle has fallen considerably below the amount owing on the finance agreement.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

**2. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES *(continued)*****Significant Increase in Credit Risk (SICR)**

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

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

The Company uses a number of measures to identify SICR including regular feeds from credit reference agencies to assess current customer indebtedness (CII) against inception. The Company also considers early indications of a deterioration in the credit quality of the customer not reflected in the PD. For example, if the CII exceeds specific thresholds consistent with the application process, then the agreement would be moved to stage 2.

**Motor finance commission claims**

The Company has concluded that an outflow of economic benefits in respect of this matter is not probable as described in more detail in note 30. This represents a critical accounting judgment.

**3. RISK MANAGEMENT****3.1 Financial risks**

As a result of its normal business activities, the Company is exposed to a variety of financial risks, the most significant of which are credit risk, market risk, interest rate risk, foreign currency risk, liquidity risk and residual value risk. The Company manages its risk in line with the central risk management function of the Santander UK Group Holdings plc. Santander UK Group Holdings plc's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group Holdings plc's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK Group Holdings plc'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 Holdings plc'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 Group Holdings plc Annual Report which does not form part of this report.

**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.

**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 FOR THE YEAR ENDED 31 DECEMBER 2023

**3. RISK MANAGEMENT (continued)****Credit risk (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.

Gross amounts	2023	2022
	£'000	£'000
<b>Financial assets at amortised cost:</b>		
Finance leases (note 19)	5,316,231	5,162,505
Unsecured personal loans (note 20)	179,273	298,748
Wholesale funding (note 20)	516,062	539,084
Entities with significant influence over the Company- Santander UK plc (note 32)	1,367,012	1,007,818
Joint venture: Hyundai Capital UK Limited (note 32)	2,841,703	2,733,834
Joint venture: Volvo Car Financial Services UK Limited (note 32)	1,646,307	1,419,408
Trade receivables (note 21)	58,313	56,118
Cash and cash equivalents (note 14)	55,002	26,535
<b>Total financial assets at amortised cost</b>	<b>11,979,903</b>	<b>11,244,050</b>

For financial assets linked to the joint ventures, Hyundai Capital UK Limited and Volvo Car Financial Services UK Limited, these entities do not fully consolidate within the Santander Group. The Company completes an impairment review of the joint ventures 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. RISK MANAGEMENT (*continued*)

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 19). These are net of impairment losses.

	2023	2022
	£'000	£'000
Finance leases (note 19)	5,257,717	5,107,961
Unsecured personal loans (note 20)	176,193	293,924
Wholesale funding (note 20)	507,978	531,752
Finance agreements (note 19,20)	5,941,888	5,933,637

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

## 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 2023 and 31 December 2022. Financial assets in the scope of IFRS 9 and not presented in this table are considered stage 1.

2023	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
<b>Gross Exposures</b>				
Finance leases	5,017,567	272,024	26,639	5,316,230
Unsecured personal loans	170,154	7,871	1,248	179,273
Wholesale funding	465,547	50,516	-	516,063
<b>Total exposures</b>	<b>5,653,268</b>	<b>330,411</b>	<b>27,887</b>	<b>6,011,566</b>
<b>IFRS 9 ECL</b>				
Finance leases	(12,875)	(27,531)	(18,107)	(58,513)
Unsecured personal loans	(665)	(1,424)	(991)	(3,080)
Wholesale funding	(7,208)	(877)	-	(8,085)
<b>Total ECL</b>	<b>(20,748)</b>	<b>(29,832)</b>	<b>(19,098)</b>	<b>(69,678)</b>
<b>Net exposures</b>				
Finance leases	5,004,692	244,493	8,532	5,257,717
Unsecured personal loans	169,489	6,447	257	176,193
Wholesale funding	458,339	49,639	-	507,978
<b>Total net exposures</b>	<b>5,632,520</b>	<b>300,579</b>	<b>8,789</b>	<b>5,941,888</b>
<b>2022</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Gross Exposures</b>				
Finance leases	4,858,289	277,251	26,965	5,162,505
Unsecured personal loans	286,685	10,116	1,947	298,748
Wholesale funding	476,449	62,624	11	539,084
<b>Total exposures</b>	<b>5,621,423</b>	<b>349,991</b>	<b>28,923</b>	<b>6,000,337</b>
<b>IFRS 9 ECL</b>				
Finance leases	(11,897)	(23,781)	(18,866)	(54,544)
Unsecured personal loans	(1,323)	(1,918)	(1,583)	(4,824)
Wholesale funding	(6,235)	(1,093)	(4)	(7,332)
<b>Total ECL</b>	<b>(19,455)</b>	<b>(26,792)</b>	<b>(20,453)</b>	<b>(66,700)</b>
<b>Net exposures</b>				
Finance leases	4,846,392	253,470	8,099	5,107,961
Unsecured personal loans	285,362	8,198	364	293,924
Wholesale funding	470,214	61,531	7	531,752
<b>Total net exposures</b>	<b>5,601,968</b>	<b>323,199</b>	<b>8,470</b>	<b>5,933,637</b>

Gross exposures have fallen by £11.2m and at 2023 total £6,011,566 (2022: £6,000,337). Total ECL provisions have increased by £3m, with the key driver being an overall increase in the stage 2 ECL linked to finance leases. Movements in ECL provision are set out on the next page.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. RISK MANAGEMENT (*continued*)

	Stage 1 Subject to 12- month ECL £'000	Stage 2 Subject to lifetime ECL £'000	Stage 3 Subject to lifetime ECL £'000	Total £'000
<b>Finance leases</b>				
At 1 January 2022	(10,750)	(13,578)	(15,537)	(39,865)
Income statement charge for the year	(2,731)	(6,972)	(21,151)	(30,854)
Net impairment reversal/ (charge)	1,623	(1,623)	-	-
Transfers to 12-month ECL	(39)	(1,608)	1,647	-
Transfers to credit impaired	-	-	16,175	16,175
At 31 December 2022 and 1 January 2023	(11,897)	(23,781)	(18,866)	(54,544)
Income statement charge for the year	(2,598)	(445)	(21,509)	(24,552)
Net impairment charge	(2,598)	(445)	(21,509)	(24,552)
Transfers to 12-month ECL	1,660	(1,660)	-	-
Transfers to credit impaired	(40)	(1,645)	1,685	-
Assets derecognised – written off	-	-	20,583	20,583
At 31 December 2023	(12,875)	(27,531)	(18,107)	(58,513)

The ECL for finance leases has increased overall by £4,728,000 with increases in all ECL stages, mainly due to increases in gross exposures.

	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
<b>Unsecured personal loans</b>				
At 1 January 2022	(841)	(930)	(937)	(2,708)
Income statement charge for the year	(572)	(803)	(3,628)	(5,003)
Net impairment (charge)/ reversal	(572)	(803)	(3,628)	(5,003)
Transfers to 12-month ECL	93	(93)	-	-
Transfers to credit impaired	(3)	(92)	95	-
Assets derecognised – written off	-	-	2,887	2,887
At 31 December 2022 and 1 January 2023	(1,323)	(1,918)	(1,583)	(4,824)
Income statement charge for the year	-	-	(3,567)	(3,567)
Income statement release for the year	608	596	539	1,743
Net impairment (charge)/reversal	608	596	(3,028)	(1,824)
Transfers to 12-month ECL	51	(51)	-	-
Transfers to credit impaired	(1)	(51)	52	-
Assets derecognised – written off	-	-	3,568	3,568
At 31 December 2023	(665)	(1,424)	(991)	(3,080)

	Stage 1 Subject to 12- month ECL £'000	Stage 2 Subject to lifetime ECL £'000	Stage 3 Subject to lifetime ECL £'000	Total £'000
<b>Wholesale funding</b>				
At 1 January 2022	(6,524)	(2,516)	-	(9,040)
Income statement charge for the year	(778)	2,490	(300)	1,412
Net impairment (charge)/ reversal	(778)	2,490	(300)	1,412
Transfers to 12-month ECL	1,067	(1,067)	-	-
Assets derecognised – written off	-	-	296	296
At 31 December 2022 and 1 January 2023	(6,235)	(1,093)	(4)	(7,332)
Income statement charge	(1,570)	-	-	(1,570)
Income statement release for the year	-	832	(15)	817
Net impairment (charge)/ reversal	(1,570)	832	(15)	(753)
Transfers to 12-month ECL	616	(616)	-	-
Transfers to credit impaired	(19)	-	19	-
At 31 December 2023	(7,208)	(877)	-	(8,085)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. RISK MANAGEMENT (*continued*)

The ECL for wholesale loans has increased by £753,000 with increases primarily in stage 1. This increase is linked to management's assessment of concentration risk.

## Interest rate risk

The Company provides fixed rate loans and finance leases. The Company's borrowings from its parent Santander UK plc are all fixed rate loans and for this reason there is limited interest rate risk on the retail lending portfolio. The Company's borrowings are primarily from its parent as shown in note 27, however it occasionally enters into funding arrangements through securitisations.

The Company issued asset-based securities through the securitisation vehicle Repton 2023-1 Ltd which resulted in an interest rate mismatch where the variable funding note payable is a variable rate and the interest received on securitised agreements is fixed. This is mitigated with a back to back interest rate swap between Repton 2023-1 Ltd and the Company, with Lloyds Bank plc as a counterparty in between. The Company has not designated the interest rate swap as having an accounting hedge relationship.

## Foreign currency risk

The Company has limited exposures to foreign currency risk. As at 31<sup>st</sup> December 2023, the Company has bank balances of £13.9k (2022: £22.1k) held in foreign currencies.

At the current and prior year reporting date the Company had no currency cash flow swaps.

## 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 third party debt.

Liquidity risk is monitored through different committees and levels of management, including the Asset and Liability Committee (ALCO) and the Board Risk Committee. The Company reviews rolling forecasts of its liquidity requirements including its cash flow forecast.

*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. This table is not intended to show the liquidity of the Company.

At 31 December 2023	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total contractual cash flows £000	Carrying amount £000
Amounts due to Santander UK plc group companies	-	1,327,246	3,325,538	5,006,436	-	9,659,220	9,168,822
Amounts due to Hyundai Capital UK Limited	-	11,427	231,233	571,556	71,798	886,014	750,006
Amounts due to Securitisations entities	-	-	-	528,699	-	528,699	528,699
Bank overdrafts	24	-	-	-	-	24	24
Trade and other payables	13,489	-	41,679	-	-	55,168	55,169
Lease liabilities	-	561	1,570	4,012	4,924	11,067	10,656
Derivative financial instruments	-	-	709	340	-	1,049	1,049
<b>Total financial liabilities</b>	<b>13,513</b>	<b>1,339,234</b>	<b>3,600,729</b>	<b>6,111,043</b>	<b>76,722</b>	<b>11,141,241</b>	<b>10,514,425</b>

At 31 December 2022	Demand £000	Up to 3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Total contractual cash flows £000	Carrying amount £000
Amounts due to Santander UK plc group companies	-	1,292,849	3,009,188	5,020,425	-	9,322,462	9,034,589
Amounts due to Hyundai Capital UK Limited	-	27,953	303,353	528,453	181,403	1,041,162	953,799
Amounts due to Securitisations entities	-	3,843	2,839	-	-	6,682	6,682
Bank overdrafts	12,240	-	-	-	-	12,240	12,240
Trade and other payables	5,303	-	68,746	-	-	74,049	74,049
Lease liabilities	-	446	1,209	3,639	5,773	11,067	10,701
<b>Total financial liabilities</b>	<b>17,543</b>	<b>1,325,091</b>	<b>3,385,335</b>	<b>5,552,517</b>	<b>187,176</b>	<b>10,467,662</b>	<b>10,092,060</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

### 3. RISK MANAGEMENT *(continued)*

#### Fair values of financial assets and liabilities

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 FVTPL are expensed in profit or loss.

#### 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 market 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.

#### 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. A third party is used to provide estimates of residual values which are incorporated into management's methodology for determining any impairment. However, future RVs can be difficult to predict due to future trends and changes in customer demand and therefore the Company is exposed to changes in RVs that could lead to material changes in profitability in the future.

#### 3.2 Non financial risks

The Company also focuses on non-financial risks including financial crime risk, operational risk and conduct risk.

#### Financial crime risk

Financial crime risk is the risk that the Company is used to further financial crime, including money laundering, sanctions evasion, terrorist financing, facilitation of tax evasion and bribery and corruption.

The Company together with the Group takes a proactive approach to mitigating financial crime risk. The Group's financial crime risk frameworks are supported by policies and standards which explain the requirements for mitigating money laundering, terrorist financing, sanctions compliance risks, bribery and corruption, and facilitation of tax evasion risks. These are updated regularly to ensure they reflect new requirements and industry best practice. The Company supports its colleagues to make sure they can make the right decisions at the right time. The Company raises awareness and provides role-specific training to build knowledge of emerging risks. The Company is currently investing in anti-money laundering initiatives. Key elements of the financial crime risk mitigation approach that are taken include:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

**3. RISK MANAGEMENT (continued)**

- Undertaking customer due diligence measures for new and existing customers, which include understanding their activities and financing needs
- Conducting risk assessments of customers, products, businesses, sectors and geographic risks to tailor for mitigation efforts
- Ensuring all the Company's colleagues complete mandatory financial crime training and, where required, role-based specialist training
- Deploying new systems to better capture, analyse and act on data to mitigate financial crime risks.

The mission to effectively deter, detect and disrupt financial crime remains a key priority for the Company. The Board provides oversight and continues to prioritise resources and investment in progressing its multi-year Financial Crime Transformation and Remediation programme to enhance systems and controls, modernise the technology and data capabilities and to ensure the firm can operate sustainably within its stated risk appetite.

**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.

**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.

**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 Group Holdings plc 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 12. 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 2023 £000	Year ended 31 December 2022 £000
Retail- finance leasing income	263,262	224,201
Retail- unsecured personal loan income	14,089	20,555
Wholesale funding income	34,670	13,547
Interest and fees receivable on lending to joint ventures	162,044	60,272
Interest on term deposits	77,009	17,446
Interest income on securitisation	3,020	1,275
Bank interest income	958	-
<b>Total</b>	<b>555,052</b>	<b>337,296</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 6. FINANCE COSTS

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Interest payable on securitisation	30,715	10,977
Interest payable on borrowings held with Santander UK plc Group	315,417	127,117
Interest payable to Hyundai Capital UK Limited	53,423	16,680
Interest payable to Volvo Car Financial Services UK Limited	106	-
Interest on bank overdrafts and loans	365	1,242
Operating lease finance charges	407	355
<b>Total</b>	<b>400,433</b>	<b>156,371</b>

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 32.

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 4.05% for the year (2022: 2.27%).

The interest rate payable on bank overdrafts is variable and based on the base rate plus 0.15%; as at the end of 2023 the rate was 5.40% (2022: 3.65%).

## 7. OTHER OPERATING INCOME

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Operating lease income	130,068	141,200
Intercompany recharges	25,178	19,518
Net income on wholesale fees and other items from retail book	3,260	2,662
<b>Total</b>	<b>158,506</b>	<b>163,380</b>

Operating lease income includes the profits and losses on the sale of the vehicle at the contract termination date. Within operating income of £130,068,000 (2022: £141,200,000) is a gain on disposal of £40,778,000 (2022: gain of £52,057,000) – see note 17.

Intercompany charges of £15,953,000 (2022: £13,652,000) and £9,225,000 (2022: £5,867,000) are made to the Company's joint ventures Hyundai Capital UK Limited and Volvo Car Financial Services UK Limited, respectively, in relation to portfolio management and expenses paid on their behalf.

## 8. CREDIT IMPAIRMENT LOSSES AND PROVISIONS

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
<b>Credit impairment losses and provisions:</b>		
Losses on loans and receivables	(23,677)	(31,967)
Recoveries of loans and receivables previously written off	11,180	7,647
	(12,497)	(24,320)
Provisions for residual value and voluntary terminations	(2,558)	1,091
	(15,055)	(23,229)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 9. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
<b>Staff costs:</b>		
Wages and salaries	47,741	38,897
Social security costs	5,312	4,556
Other pension costs (see note 31)	4,230	3,370
	<b>57,283</b>	<b>46,823</b>
<b>Other costs:</b>		
Depreciation of property, plant and equipment (see note 16)	1,862	1,560
Depreciation of operating leases (see note 17)	62,265	70,025
<b>Other administrative expenses:</b>		
Information Technology	8,221	8,906
General overheads	32,585	29,906
Auditors' remuneration for statutory audit	335	316
	<b>105,268</b>	<b>110,713</b>
<b>Total</b>	<b>162,551</b>	<b>157,536</b>

**Auditors' remuneration**

The audit fee for the current and prior years have been paid by the Company. The audit fee for the current year is £335,000 (2022: £317,000).

Non-audit fees of £294,250 were charged to the Company in 2023 comprising £292,000 (2022: £171,000) in respect of other assurance services (Sarbanes Oxley reporting services performed for the parent auditors) and £2,250 in respect of other services (2022: £2,000).

**Staff Costs**

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

	Year ended 31 December 2023 No.	Year ended 31 December 2022 No.
Sales and customer service	481	399
Administration and support	370	339
<b>Total</b>	<b>851</b>	<b>738</b>

## 10. INVESTMENT INCOME

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Dividends received from Hyundai Capital UK Limited	50,010	-
<b>Total</b>	<b>50,010</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 11. DIRECTORS' EMOLUMENTS

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

	Year ended 31 December 2023	Year ended 31 December 2022
	£000	£000
Salaries and fees	505	626
Performance related payments	597	744
Other fixed remuneration	42	52
<b>Total emoluments excluding pension contributions</b>	<b>1,144</b>	<b>1,422</b>
Pension contributions	119	195
<b>Total</b>	<b>1,263</b>	<b>1,617</b>

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

## Remuneration of highest paid Director

The emoluments excluding pension contributions of the highest paid Director were £734,377 (2022: £721,705) of which £430,125 was performance related (2022: £436,467). The accrued pension benefit for the highest paid Director was £136,124 (2022: £135,880).

Two Directors (2022: two) will be receiving benefits under a defined benefits scheme and no Director (2022: 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, S.A. group level. Such principles, as applied to the Company, are subject to ratification by the Santander UK plc 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 2023	Year ended 31 December 2022
	£000	£000
Unrealised fair value (loss)/ gain on macro hedge interest rate swaps designated in a fair value hedge relationship	(1,036)	13
Unrealised fair value gain/ (loss) on adjustment for the hedged item in a fair value hedge relationship	1,063	(9)
Unrealised fair value gain on basis interest rate swaps	2,786	-
Realised fair value loss on interest rate swaps	(2,760)	-
<b>Total investment gains</b>	<b>53</b>	<b>4</b>

The above gains and losses were on derivatives. See note 23.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 13. TAX

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
<b>Current tax:</b>		
UK corporation tax on profit of the year	28,648	27,502
Adjustments in respect of prior years	3,055	331
Total current tax	31,703	27,833
<b>Deferred tax (note 22):</b>		
Origination and reversal of temporary differences	3,601	4,553
Change in rate of UK Corporation tax	230	1,438
Adjustments in respect of prior years	(4,097)	(152)
Total deferred tax	(266)	5,839
<b>Tax charge on profit for the year</b>	<b>31,437</b>	<b>33,672</b>

UK corporation tax is calculated at 23.50% (2022: 19.00%).

The enacted tax rate for 2024 is expected to be 25% for corporation tax. This rate has therefore been applied in determining both the opening and closing balance sheet positions for deferred tax.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK to implement the OECD Pillar Two model rules and which introduces a global minimum effective tax rate of 15% with effect from 1 January 2024. It is not anticipated that the rules will impact the Company.

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 2023 £000	Year ended 31 December 2022 £000
<b>Profit before tax:</b>		
Continuing operations	185,583	163,544
Tax at the UK corporation tax rate of 23.50% (2022: 19.00%)	43,612	31,073
Non-deductible expenses	413	982
Non-taxable income	(24)	-
Non-taxable dividend income	(11,752)	-
Effect of change in tax rate on deferred tax provision	230	1,438
Adjustments in respect of prior years	(1,042)	179
<b>Tax charge for the year</b>	<b>31,437</b>	<b>33,672</b>

## 14. CASH AND CASH EQUIVALENTS

	2023 £000	2022 £000
Cash and cash equivalents	55,002	26,535
	55,002	26,535

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 15. INTANGIBLE ASSETS

Software capitalisation	Work in progress £000	IT systems £000	Total 2023 £000	Total 2022 £000
<b>Cost</b>				
At 1 January	3,586	2,788	6,374	15,380
Additions	4,282	-	4,282	3,586
Transfers	(2,716)	2,716	-	-
Disposals	-	-	-	(12,592)
<b>At 31 December</b>	<b>5,152</b>	<b>5,504</b>	<b>10,656</b>	<b>6,374</b>
<b>Accumulated amortisation</b>				
At 1 January	-	-	-	6,674
On disposals	-	-	-	(6,674)
<b>At 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Impairment provisions</b>				
At 1 January	-	-	-	5,917
On disposals	-	-	-	(5,917)
<b>At 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>				
<b>At 31 December</b>	<b>5,152</b>	<b>5,504</b>	<b>10,656</b>	<b>6,374</b>

The 2023 additions of £4,282,000 (2022: £3,586,000) relate to the IRB Project £1,566,000 and Project Phoenix £2,716,000. The IRB project is not yet operational and to date no amortisation has been charged relating to this addition. Project Phoenix which is the replacement of the retail mainframe system was launched at the end of 2023 and amortisation commenced in early 2024.

The total cost of £10,656,000 is made up of two capital projects, IRB £5,267,000 and Project Phoenix £5,389,000.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings £000	Office fixtures and equipment £000	Vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2022	12,326	390	2,003	14,719
Additions	-	53	1,354	1,407
Disposals	-	-	(1,442)	(1,442)
<b>At 31 December 2022 and 1 January 2023</b>	<b>12,326</b>	<b>443</b>	<b>1,915</b>	<b>14,684</b>
Additions	-	20	1,848	1,868
Disposals	-	-	(591)	(591)
<b>At 31 December 2023</b>	<b>12,326</b>	<b>463</b>	<b>3,172</b>	<b>15,961</b>
<b>Accumulated depreciation</b>				
At 1 January 2022	2,311	243	1,499	4,053
Charge in year	770	115	675	1,560
On disposals	-	-	(1,442)	(1,442)
<b>At 31 December 2022 and 1 January 2023</b>	<b>3,081</b>	<b>358</b>	<b>732</b>	<b>4,171</b>
Charge in year	770	61	1,031	1,862
On disposals	-	-	(587)	(587)
<b>At 31 December 2023</b>	<b>3,851</b>	<b>419</b>	<b>1,176</b>	<b>5,446</b>
<b>Carrying amount</b>				
<b>At 31 December 2023</b>	<b>8,475</b>	<b>44</b>	<b>1,996</b>	<b>10,515</b>
<b>At 31 December 2022</b>	<b>9,245</b>	<b>85</b>	<b>1,183</b>	<b>10,513</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 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 2022	713,542
Additions	185,499
Disposals	(189,578)
At 31 December 2022 and 1 January 2023	709,463
Additions	84,938
Disposals	(169,735)
At 31 December 2023	624,666
<b>Accumulated depreciation and impairment</b>	
At 1 January 2022	139,676
Depreciation charge for the year	70,025
Disposals	(70,862)
At 31 December 2022 and 1 January 2023	138,839
Depreciation charge for the year	62,266
Disposals	(59,538)
At 31 December 2023	141,567
<b>Net book value</b>	
At 31 December 2023	483,099
At 31 December 2022	570,624

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

	2023 £000	2022 £000
Within 1 year	65,303	84,559
Between 1-5 years	34,941	64,651
Total	100,244	149,210

The breakdown of net profit on disposals is as follows:

	2023 £000	2022 £000
Disposals- cost	(169,735)	(189,578)
Disposals- depreciation	59,538	70,862
Sale proceeds	150,975	170,773
Net profit on disposal	40,778	52,057

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 18. INVESTMENT IN JOINT VENTURE

Details of the Company's joint ventures as at 31 December 2023 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	50.01	50.01

The investment in the joint ventures is stated at cost at £76,506,000 (2022: £76,506,000). 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
<b>Volvo Car Financial Services UK Limited</b>	<b>Proportion of ownership interest %</b>	<b>Proportion of voting power held %</b>
Volvo Car Corporation	49.99	49.99

The Company has a majority shareholding in both Hyundai Capital UK Limited and Volvo Car Financial Services UK Limited. However, based on the structure of agreements over decision making and other areas these are accounted for as joint ventures. During the year, Hyundai Capital UK Limited paid a dividend of £50,010,000 (2022: Nil) to the Company. Volvo Car Financial Services UK Limited paid no dividend (2022: £nil).

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

The registered office of Volvo Car Financial Services UK Limited is Scandinavia House, Norreys Drive, Maidenhead, Berkshire, United Kingdom, SL6 4FL.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 19. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments receivable	
	2023 £000	2022 £000	2023 £000	2022 £000
Gross investment under finance leases:				
Within one year	1,488,970	1,446,018	1,194,046	1,201,812
In the second to fifth years inclusive	3,767,885	3,660,927	3,222,009	3,235,335
After five years	59,376	55,560	50,773	49,100
	<b>5,316,231</b>	<b>5,162,505</b>	<b>4,466,828</b>	<b>4,486,247</b>
Less: unearned future finance income	(770,195)	(600,155)	-	-
Less: expected credit loss allowance	(58,514)	(54,544)	-	-
Less: RV and voluntary termination provision	(20,694)	(21,559)	-	-
Net investment in finance lease receivables	<b>4,466,828</b>	<b>4,486,247</b>	<b>4,466,828</b>	<b>4,486,247</b>
Analysed as:	2023 £000	2022 £000		
Non-current finance lease receivables (recoverable after 12 months)	3,265,003	3,229,649		
Current finance lease receivables (recoverable within 12 months)	1,201,825	1,256,598		
	<b>4,466,828</b>	<b>4,486,247</b>		

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 three months (2022: four years and four months).

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 10.18% (2022: 7.03%) 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 agrees, 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 £1,578,298,000 (2022: £1,180,051,000). The Directors consider that the fair value of finance lease receivables is 6.15% lower (2022: 4.09% lower) than the carrying value.

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

	2023 £000	2022 £000
At 1 January	21,559	24,964
Credit to income statement	2,558	(1,091)
Utilised	(3,423)	(2,314)
At 31 December	20,694	21,559

Amounts are received in advance from a manufacturing partner to cover potential losses from customers on PCP contracts handing-back vehicles. The level of residual value 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 2023 was £15,714,000 and this amount is shown within note 25 trade and other payables (2022: £16,852,000).

The Company offers personal loan agreements with a guaranteed future market value or generally referred to as a balloon product. Under these agreements, the customer may choose to return the vehicle at the end of the contract. As at the balance sheet date the value of the final balloon payments on unsecured agreements is £219,622,000 (2022: £318,823,000).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 20. FINANCIAL ASSETS HELD AT AMORTISED COST

	2023 £000	2022 £000
Unsecured personal loans	179,273	298,748
Wholesale funding	516,062	539,085
Loans due from Hyundai Capital UK Limited - Joint Venture	2,841,703	2,733,833
Loans due from Volvo Car Financial Services UK Ltd - Joint Venture	1,645,171	1,414,519
Term Deposits with Santander UK Plc	1,300,077	953,798
Securitisation Issuance costs	-	32
Securitisation notes	65	-
Loan due from Motor 2016-1 plc- Securitisation	-	657
<b>Loans and receivables</b>	<b>6,482,350</b>	<b>5,940,672</b>
Less: Expected credit loss allowances on unsecured personal loans	(3,080)	(4,824)
Less: Expected credit loss allowances on wholesale funding	(8,084)	(7,332)
<b>Total</b>	<b>6,471,186</b>	<b>5,928,516</b>

The performance of loans and receivables are analysed as follows:

	2023 %	2023 £000	2022 %	2022 £000
<b>Not impaired:</b>				
Neither past due or impaired	99.94%	6,478,411	99.91%	5,935,418
<b>Past due and performing assets:</b>				
Up to 3 months	0.04%	2,894	0.06%	3,552
<b>Past due and non-performing assets:</b>				
3 to 6 months	0.02%	1,045	0.03%	1,702
<b>Loans and advances to customers</b>	<b>100.00%</b>	<b>6,482,350</b>	<b>100.00%</b>	<b>5,940,672</b>
Less: Impairment allowances on unsecured personal loans		(3,080)		(4,824)
Less: Impairment allowances on wholesale funding		(8,084)		(7,332)
<b>Loans and advances to customers net of impairment loss reserves</b>		<b>6,471,186</b>		<b>5,928,516</b>
<b>Analysed as:</b>				
Non-current loans and receivables (recoverable after 12 months)		2,957,153		3,051,041
Current loans and receivables (recoverable within 12 months)		3,514,033		2,877,475
		<b>6,471,186</b>		<b>5,928,516</b>

The Directors consider that the fair value of loans and receivables is 6.18% lower (2022: 4.52% lower) than the carrying value.

All loans to third parties (excluding joint ventures) are to private individuals and companies and are at fixed rates, the average effective interest rate is 11.64% (2022: 6.95%). All loans are made in UK sterling. Loans and receivables to third parties include amounts receivable after twelve months totalling £104,352,000 (2022: £194,821,000).

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 £8,084,000 (2022: £7,332,000).

The entities Hyundai Capital UK Limited and Volvo Car Financial Services UK Limited are not fully consolidated as they do not meet the accounting definition of a subsidiary. The Company does not prepare group financial statements. The share of profit from the two entities are included in the consolidated financial statements of Santander UK Plc Group.

The Company has amounts on deposit with Santander UK Plc of £1,300,515,000 (2022: £953,799,000).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 21. TRADE AND OTHER RECEIVABLES

	2023 £000	*Restated 2022 £000
Trade receivables	31,538	21,493
Fair value of future premiums	15,023	23,901
Amounts due from Volvo Car Financial Services UK Limited	1,134	4,888
Contract hire deferred commission	8,252	4,345
Prepayments	2,366	1,491
<b>Total</b>	<b>58,313</b>	<b>56,118</b>
	2023 £000	2022 £000
Non-current	8,583	15,330
Current	49,730	40,788
<b>Total</b>	<b>58,313</b>	<b>56,118</b>

\*The restatement relates to the correction of the prior year split of trade and other receivables between current and non-current.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## 22. 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:

	Total £000
At 1 January 2022	6,811
Income statement charge	(5,839)
<b>At 31 December 2022 and 1 January 2023</b>	<b>972</b>
Income statement charge	266
<b>At 31 December 2023</b>	<b>1,238</b>

Deferred tax assets are attributable to the following items:

	Balance Sheet 2023 £000	Balance Sheet 2022 £000	Income Statement 2023 £000	Income Statement 2022 £000
<b>Deferred tax assets:</b>				
Accelerated book depreciation	1,056	269	787	(5,824)
IFRS 9 transitional adjustments	98	123	(25)	(25)
Other temporary differences	84	580	(496)	10
<b>Total deferred tax</b>	<b>1,238</b>	<b>972</b>	<b>266</b>	<b>(5,839)</b>

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.

The majority of deferred tax assets are expected to be utilised after more than one year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

## Assets:

	2023 £000	2022 £000
<b>Fair value of derivative financial instruments based on level 2 internal model:</b>		
Interest rate swap – borrowings	2,786	-
Macro hedge swap	(1,049)	14
<b>Total</b>	<b>1,737</b>	<b>14</b>

## Liabilities:

	2023 £000	2022 £000
<b>Fair value of derivative financial instruments based on level 2 internal model:</b>		
Macro hedge swap with Santander Financial Services plc	(1,049)	14
<b>Total derivatives financial instruments – liabilities</b>	<b>(1,049)</b>	<b>14</b>

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

In 2023 the Company entered into an interest rate and macro hedge swap as part of a strategic project to diversify its borrowings from fixed rate to variable:

## Notional amounts

Swap	Maturity date	2023 £000	2022 £000
Interest rate	May 2030	550,000	-
Macro hedge	June 2027	78,500	300

## 24. INVENTORIES

	2023 £000	2022 £000
Inventories of contract hire vehicles	22,641	17,491
<b>Total</b>	<b>22,641</b>	<b>17,491</b>

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

## 25. TRADE AND OTHER PAYABLES

	2023 £000	2022 £000
Trade payables	55,169	74,049
Advance rentals for contract hire	13,574	19,306
Accruals and other deferred income	21,608	23,924
Amounts due to Santander UK plc group companies	12,889	23,628
Financial guarantee contract with Motor Securities 2018-1 DAC	-	43
Financial guarantee contract with Motor Securities 2020-1 DAC	3,733	6,933
Financial guarantee contract with Motor Securities 2022-1 DAC	7,869	14,000
Amounts due to Hyundai Capital UK Limited	2,624	2,921
Provisions for restructuring	66	66
<b>Total</b>	<b>117,532</b>	<b>164,870</b>

\* The Company has reclassified bank levy payables of £3,477,000 from accruals and deferred income to amounts due to Santander UK plc and group companies.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

**25. TRADE AND OTHER PAYABLES (continued)**

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 £15,714,000 (2022: £16,852,000).

Amounts due to Santander UK plc Group companies relate to intercompany recharges totalling £8,903,000 (2022: £23,628,000) and are repayable on demand. Amounts due to Hyundai Capital UK Limited relate to intercompany recharges totalling £2,624,000 (2022: £2,921,000). No interest is incurred on intercompany recharges.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. The entire balance of trade and other payables are classed as amounts payable within one year.

**26. LEASE LIABILITIES**

	2023 £000	2022 £000
Property lease liability	8,916	9,641
Vehicle lease liability	1,740	1,060
<b>Total</b>	<b>10,656</b>	<b>10,701</b>
	2023 £000	2022 £000
Analysed as:		
Non-current	8,180	9,393
Current	2,476	1,308
<b>Total</b>	<b>10,656</b>	<b>10,701</b>

The balance above represents the closing liability linked to the operating leases that the Company has entered into. The corresponding assets are shown within note 17.

**27. BANK OVERDRAFTS AND BORROWINGS**

	2023 £000	2022 £000
Amounts due to Santander UK plc Group companies	9,168,824	9,046,689
Amounts due to Hyundai Capital UK Limited	750,006	953,799
Amounts due to Volvo Car Financial Services UK Limited	26	-
Amounts due to Repton 2023-1 Ltd	528,699	-
Amounts due to Motor 2016-1 plc	-	6,327
Amounts due to Motor Securities 2018-1 Designated Activity Company	-	354
Amounts owed to third parties	-	141
<b>Total</b>	<b>10,447,555</b>	<b>10,007,310</b>
These borrowings are repayable as follows:		
On demand or within one year	4,572,074	4,416,463
Amounts due after one year	5,875,481	5,590,847
<b>Total</b>	<b>10,447,555</b>	<b>10,007,310</b>

Amounts due to Santander UK plc Group companies include amounts for borrowings totalling £9,169,000,000 (2022: £9,035,000,000). Borrowings are fixed rate interest bearing; the average weighted interest rate as at the balance sheet date is a fixed rate of 4.05% (2022: 2.27%). Borrowings are repaid over terms agreed within the credit facility contract. The Directors consider that the fair value of finance lease receivables is 6.50% lower (2022: 4.40% lower) than the carrying value.

Hyundai Capital UK Limited has amounts on deposit of £750,006,000 (2022: £953,799,000). Amounts owed to Motor 2016-1 plc relate to assets securitised in 2016. Amounts owed to Repton 2023-1 Ltd relate to assets securitised in 2023. 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 28. SHARE CAPITAL

	2023 £000	2022 £000
<b>Authorised:</b>		
150,000,000 (2022: 150,000,000) ordinary shares of £1 each	150,000	150,000
<b>Issued and fully paid:</b>		
150,000,000 (2022: 150,000,000) ordinary shares of £1 each	150,000	150,000

The Company has a total ordinary share capital of £150,000,000 (2022: £150,000,000) which is held by Santander UK plc. The shares have attached to them full voting, dividend, and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

## 29. NOTE TO THE CASH FLOW STATEMENT

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Operating profit	135,519	163,540
<b>Adjustments for:</b>		
Finance costs	400,433	156,371
Depreciation on fixtures, fittings and operating leases	64,127	71,585
Profit on disposal of operating lease assets	(40,778)	(52,057)
Profit on disposal of ROU assets	5	
Increase in impairment losses	2,114	11,683
Operating cash flows before movements in working capital	561,420	351,122
Purchase of operating lease assets	(84,938)	(185,499)
Proceeds on disposal of operating lease assets	150,975	170,773
Decrease/ (increase) in finance lease receivables	16,315	(280,244)
(Increase)/ decrease in macro hedge of interest rate risk	(1,036)	12
Increase in loans and receivables	(95,932)	(196,516)
Intercompany lending to Joint Ventures	(2,407,990)	(2,506,654)
Repayments received on intercompany lending to Joint Ventures	2,231,513	1,491,732
(Increase)/ decrease in trade receivables	(2,194)	1,148
(Increase)/ decrease in inventories	(5,150)	5,904
(Decrease)/ increase in payables	(47,340)	45,698
<b>Cash generated from/ (used in) operations</b>	<b>315,643</b>	<b>(1,102,524)</b>
Tax paid	(34,837)	(34,095)
<b>Net cash generated from/ (used in) operating activities</b>	<b>280,806</b>	<b>(1,136,619)</b>

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.

## 30. CONTINGENT LIABILITIES

Following the FCA's Motor Market review in 2019 which resulted in a change in rules in January 2021, the Company has received a number of county court claims and complaints in respect of its historical use of discretionary commission arrangements (DCAs) prior to the 2021 rule changes. In the context of the complaints made to the Financial Ombudsman Service relating to such commission arrangements, the FCA announced on 11 January 2024 that it intends to use its powers under s166 of the Financial Services and Markets Act 2000 to review the historical use of DCAs between lenders and credit brokers (the "FCA Review") and whether redress should be payable. In line with the FCA's announcement, we have paused the response to customer complaints until at least 20 November 2024. A claim has been issued against the Company, Santander UK plc and others in the Competition Appeal Tribunal (CAT), alleging that the Company's historical commission arrangements in respect of used car financing operated in breach of the Competition Act 1998. While it is possible that certain charges may be incurred in relation to existing or future county court claims, Financial Ombudsman Service (FOS) complaints and the CAT proceedings, it is not considered that a legal or constructive obligation has been incurred in relation to these matters that would require a provision to be recognised at this stage. The resolution of such matters is not possible to predict with any certainty and there remain significant inherent uncertainties regarding the existence, scope and timing of any possible outflow which make it impracticable to disclose the extent of any potential financial impact.

## 31. 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 £4,230,000 (2022: £3,370,000) was recognised as an expense for the contributions and is included in note 9. Of this amount £298,000 was recognised for key management personnel (2022: £377,388). The details of the pension scheme appear in the financial statements of Santander UK plc.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

## 32. 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	
	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000	2023 £000	2022 £000
Entities with significant influence over the Company - Santander UK plc	77,036	17,458	321,546	131,231	1,365,073	1,007,818	9,197,382	9,095,917
Previous subsidiary undertaking: PSA Finance UK Limited	239	340	-	-	-	-	-	-
Joint venture: Hyundai Capital UK Limited	111,597	51,640	53,423	16,680	2,841,703	2,733,834	752,630	956,720
Joint venture: Volvo Car Financial Services UK Limited	71,786	25,466	106	-	1,646,307	1,419,408	27	2
Other related parties: Motor 2016-1 plc	124	1,274	289	2,599	-	657	-	6,327
Other related parties: Motor Securities 2018-1 Designated Activity Company	-	-	-	-	-	-	-	355
Other related parties: Motor Securities 2020-1 Designated Activity Company	-	-	3,068	3,068	4,602	7,670	3,742	-
Other related parties: Motor Securities 2022-1 Designated Activity Company	-	-	3,678	306	11,115	14,568	7,359	-
Other related parties: Motor Securities 2023-1 Designated Activity Company	-	-	527	-	-	-	527	-
Other related parties: Santander Global Consumer Services Limited	-	-	-	-	-	-	-	28
Other related parties: Gesban UK Limited	-	-	18	18	-	-	-	-
Other related parties: Santander Global Technology Limited	-	-	1,138	2,566	-	-	703	2,109
Other related parties: Santander Global Facility S.A.	-	-	46	39	-	-	-	-
Other related parties: Aquanima UK	-	-	92	92	-	-	-	-
Other related parties: Santander Consumer Finance S.A.	3,600	2,331	4,376	3,921	-	-	-	-
Other related parties: Repton 2023-1 Ltd	-	-	15,450	-	-	-	528,698	-
Other related parties: Santander Insurance Services UK Ltd	113	-	-	-	-	-	-	-
Other related parties: Santander Consumer Finance Global Services, S.L.	-	-	-	-	-	-	287	-

Amounts owed to Santander UK plc include borrowings, intercompany recharges and bank balances. See note 27 for further detail. Treasury borrowing costs including the interest rate derivatives are all recharged.

Amounts owed by Hyundai Capital UK Limited include treasury borrowings and accrued interest of £2,841,703,000 (2022: £2,733,834,000). Amounts owed to Hyundai Capital UK Limited include management recharges for borrowings, staff, system and overheads of £2,624,000 (2022: £2,921,000). Hyundai Capital UK Limited has amounts on deposit of £750,006,000 (2022: £953,799,000).

Amounts owed by Volvo Car Financial Services UK Limited include treasury borrowings and accrued interest of £1,646,307,000 (2022: £1,414,519,000) plus an intercompany receivable on demand amount of £1,134,000 (2022: £4,888,000)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

**32. RELATED PARTY TRANSACTIONS (continued)**

## 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 ten employees (2022: nine) 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 2023 £000	Year ended 31 December 2022 £000
Short-term employee benefits	3,218	2,917
Post-employment benefits	298	377
	<b>3,516</b>	<b>3,294</b>

Of the Key Management Personnel that served during the year, three Directors were remunerated in relation to their services to the Company (2022: three).

## 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 2023	-	-
Net movement during the year	1	28
<b>Balances outstanding at 31 December 2023</b>	<b>1</b>	<b>28</b>

At year end, there was one director with an outstanding vehicle loan balance of £27,837.53. There were no other transactions with directors or key management personnel.

**33. 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, S.A. a company registered at S/N, Avenida De Cantabria, Boadilla Del Monte, Madrid 28600, Spain. Banco Santander, S.A. 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 Corporate Governance Office, Santander UK plc, 2 Triton Square, Regent's Place, London NW1 3AN.