

FOSSE MASTER ISSUER PLC

**Registered in England & Wales
Company Number 05925693**

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2013**

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Strategic Report

The Directors submit the strategic report together with their directors' report and the financial statements for the year ended 31 December 2013.

Fair review of the Company's Business

The Santander UK plc group (the "Group") manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Santander UK plc, which include the Company, are discussed in the Group's Annual Report which does not form part of this Report.

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

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 17.

By Order of the Board



Helena Whitaker
per pro SFM Directors Limited
as Director

13 May 2014

Registered Office Address: C/O Structured Finance Management, 35 Great St. Helen's, London, EC3A 6AP

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Report of the Directors

The Directors submit their report together with the financial statements for the year ended 31 December 2013.

Principal activity and business review

Fosse Master Issuer Plc (the 'Company') was established as a special purpose company for the purposes of issuing debt securities (residential mortgage backed notes) in the international capital markets ('Notes') and lending the proceeds thereof to a group company Fosse Funding (No. 1) Limited on a limited recourse basis. In turn Fosse Funding (No.1) Limited made such funds available to the Santander UK plc group by purchasing a beneficial interest in a mortgage loan portfolio held by Fosse Trustee Limited (the 'Fosse Master Trust').

Payments of interest and principal on the Notes are made only to the extent that the Company has received sufficient funds from its beneficial interest in the underlying mortgage loans and after certain expenses have been met. Under the documents governing the transaction, Santander UK plc and its subsidiaries (the 'Santander UK Group') are not obliged to support any losses that may be suffered by holders of the debt securities in issue.

During the year the Company received interest of £0.3bn (2012: £0.4bn) from Fosse Funding (No.1) Limited. The Company used those cash resources to pay interest of £0.3bn (2012: £0.4bn) on debt securities in issue. The Company issued debt securities of £nil (2012: £2.6bn) and made payments of principal of £4.9bn (2012: £3.2bn). The Company received £4.9bn (2012: £3.2bn) from Fosse Funding (No. 1) Limited, being repayments of related party loan. All amounts were paid in full and on time.

Likely Future Developments

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

Corporate governance

The Directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

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Report of the Directors *(continued)*

Results and dividends

The loss after tax for the year ended 31 December 2013 was £22.3m (2012: loss £29.8m). The Directors do not recommend the payment of a final dividend (2012: £Nil).

Directors and Directors' interests

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

T Ranger

SFM Directors Limited

SFM Directors (No.2) Limited

None of the Directors hold, or have ever held, any beneficial interests in the shares of the Company. No Director had a material interest in any contract of significance with the Company at any time during the year under review or subsequently.

Directors' Responsibilities Statement

The Directors are responsible for preparing the report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB). 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 these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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Report of the Directors *(continued)*

Financial Instruments

The Company's financial instruments, other than derivatives, comprise loans to group undertakings, borrowings, cash and liquid resources, and various items, such as debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Santander UK group's operations.

The Company also enters into derivatives transactions (cross currency and interest rate swaps). The purpose of such transactions is to manage the currency risks arising from the Company's operations and its sources of finance.

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

The main risks arising from the Company's financial instruments are currency and interest rate risk. The Company has foreign currency debt securities in issue denominated in US Dollars, Euros and Japanese Yen. The Board reviews and agrees policies for managing this risk. The Company's policy is to eliminate all exposures arising from movements in exchange and interest rates by the use of cross currency and interest rate swaps to manage the currency and interest rate risk on securities.

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

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in Note 17.

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 above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, Notes 1, 17 and 19, to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

Having considered the position of the financial status of the Company and the securitisation structure as a whole, the Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual Report and Accounts.

Qualifying Third Party Indemnities

Enhanced indemnities are provided for the benefit of Mr T Ranger as a Director of the Company by Santander UK plc against liabilities and associated costs which he could incur in the course of his duties to the Company. All indemnities remain in force as at the date of this Report and Accounts. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

The Company has made qualifying third party indemnity provisions for the benefit of the Directors as set out in a corporate services agreement. Indemnities are also provided to the Directors by Structured Finance Management Limited (as corporate services provider) against liabilities and associated costs incurred by them. These indemnities remain in force as at the date of the Directors' Report and Financial Statements.

Payment Policy

Given the nature of the Company's business, the Company does not have any suppliers and therefore does not operate a payment policy.

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Report of the Directors *(continued)*

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte 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.

By Order of the Board



Helena Whitaker
per pro SFM Directors Limited
as Director

13 May 2014

Registered Office Address: C/O Structured Finance Management Limited. 35 Great St. Helen's, London, EC3A 6AP

Independent Auditor's Report to the members of Fosse Master Issuer plc

We have audited the financial statements of Fosse Master Issuer plc for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

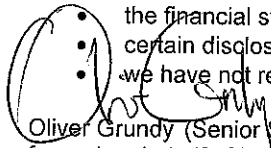
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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


Oliver Grundy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

13/1
May 2014

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Statement of Comprehensive Income For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Interest income	3	266,242	368,823
Interest expense	4	(264,337)	(367,110)
Net interest income		1,905	1,713
Other expenses	5	(22,522)	(29,846)
Administrative expenses	6	(1,717)	(1,694)
LOSS BEFORE TAX		(22,334)	(29,827)
Taxation charge	9	(1)	(4)
LOSS FOR THE YEAR		(22,335)	(29,831)
Other comprehensive income/(loss) that may be reclassified to profit or loss subsequently:			
Cash flow hedges:			
- Losses on cash flow hedges (net of tax - £nil)		(63,842)	-
- Losses on cash flow hedges transferred to profit or loss (net of tax - £nil)		62,463	-
	15	(1,379)	-
TOTAL LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY		(23,714)	(29,831)

The accompanying notes 1 to 20 form an integral part of the financial statements.

Statement of Changes in Equity For the year ended 31 December 2013

	Share capital £000	Retained earnings £000	Hedging reserve £000	Total £000
As at 1 January 2012	13	75,035	-	75,048
Loss for the year	-	(29,831)	-	(29,831)
Other comprehensive loss for the year	-	-	-	-
As at 31 December 2012 and 1 January 2013	13	45,204	-	45,217
Loss for the year	-	(22,335)	-	(22,335)
Other comprehensive loss for the year	-	-	(1,379)	(1,379)
At 31 December 2013	13	22,869	(1,379)	21,503

The accompanying notes 1 to 20 form an integral part of the financial statements

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Balance Sheet
As at 31 December 2013

	Notes	31 December 2013 £000	31 December 2012 £000
NON CURRENT ASSETS			
Loans and receivables	11	11,445,568	16,313,827
Derivative financial instruments		44,791	78,259
		11,490,359	16,392,086
CURRENT ASSETS			
Loans and receivables	11	44,178	62,362
Cash and cash equivalents	10	90	12,758
		44,268	75,120
CURRENT LIABILITIES			
Corporate tax	9	(1)	(4)
Financial liabilities	12	(50,874)	(80,367)
Debt securities in issue	13	-	(154,003)
		(50,875)	(234,374)
NET CURRENT LIABILITIES		(6,607)	(159,254)
NON CURRENT LIABILITIES			
Debt securities in issue	13	(11,225,151)	(15,891,414)
Derivative financial instruments	18	(237,098)	(296,201)
		(11,462,249)	(16,187,615)
TOTAL NET ASSETS		21,503	45,217
EQUITY			
Share capital	14	13	13
Hedging reserve	15	(1,379)	-
Retained earnings		22,869	45,204
TOTAL ORDINARY SHAREHOLDERS' EQUITY		21,503	45,217

The accompanying Notes 1 to 20 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 13 May 2014. They were signed on their behalf by:



Helena Whitaker
Per pro SFM Directors Limited

As Director

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Cash Flow Statement
For the year ended 31 December 2013

Notes	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Net cash flow from operating activities		
Loss before tax	(22,334)	(29,827)
Adjustments for non-cash items included in loss:		
Losses / (gains) on foreign exchange on retranslation of debt securities in issue	50,363	(432,036)
Gains on hedged items attributable to hedged risks	(2,370)	-
Operating cash flows before movements in working capital	25,659	(461,863)
Decrease in derivative financial instruments – assets	33,468	298,806
Decrease in financial liabilities	(29,493)	(87,124)
(Decrease) / increase in derivative financial instruments – liabilities	(60,482)	165,817
Cash used in operations	(30,848)	(84,364)
Tax paid	(4)	(5)
Net cash used in operating activities	(30,852)	(84,369)
Investing activities		
Loans advanced to group companies	-	(2,560,152)
Loan repayments from group companies	4,886,443	3,210,554
Net cash flow generated by investing activities	4,886,443	650,402
Financing activities		
Issue of debt securities in issue	-	2,560,152
Redemption of debt securities in issue	(4,868,259)	(3,204,029)
Net cash flow (used in) / generated by financing activities	(4,868,259)	643,877
Net decrease in cash and cash equivalents	(12,668)	(77,844)
Cash and cash equivalents at beginning of year	12,758	90,602
Cash and cash equivalents at end of year	90	12,758

The accompanying Notes 1 to 20 form an integral part of the financial statements.

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Notes to the Financial Statements For the year ended 31 December 2013

1. Accounting policies

The accounting policies applied to Fosse Master Issuer plc (the "Company") in the preparation of financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union that are effective at the company's reporting date. The company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments to fair value through profit and loss included in the statement of comprehensive income. The financial statements are prepared on a going concern basis as disclosed in the Directors' statement of Going Concern set out in the Report of the Directors.

Recent accounting developments

In 2013, the Company adopted the following amendments to standards which became effective for financial years beginning on 1 January 2013.

- a) IAS 1 'Presentation of Financial Statements' – In June 2011, the IASB issued amendments to IAS 1 that retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (i) items that will not be reclassified subsequently to profit or loss; and (ii) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012.

The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 did not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

- b) IAS 19 'Employee Benefits' – In June 2011, the IASB issued amendments to IAS 19 that change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the balance sheet to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, IAS 19 (2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

These amendments to IAS 19 had no impact on the Company's profit or loss or financial position.

- c) IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' - In December 2011, the IASB issued amendments to IFRS 7 which require disclosure about the effect or potential effects of netting arrangements on an entity's financial position. The Company adopted the amendments to IFRS 7 effective for annual periods beginning on or after 1 January 2013.

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Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting policies (continued)

Recent accounting developments (continued)

The Company has adopted the amendments set out in IFRS 7 however there is no significant impact on the financial assets and financial liabilities for which netting applies.

- d) IFRS 13 'Fair Value Measurement' - In May 2011, the IASB issued IFRS 13, which establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

The application of IFRS 13 resulted in the recognition of a debit valuation adjustment in respect of derivative liabilities of £2.4m for the year ended 31 December 2013 (2012: £nil). The required disclosures can be found in Note 13.

- e) There are a number of other changes to IFRS that were effective from 1 January 2013. Those changes did not have a significant impact on the Company's financial statements.

The company has early adopted and applied the following standards effective 1 January 2013 which would otherwise been effective for financial years beginning on 1 January 2014.

- f) IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – In May 2011, the package of five standards on consolidation, joint arrangements, associates and disclosures was issued. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

- > Under IFRS 10, control is the single basis for consolidation, irrespective of the nature of the investee; this standard therefore eliminates the risks-and-rewards approach. IFRS 10 identifies the three elements of control as power over the investee, exposure, or rights, to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns. An investor must possess all three elements to conclude that it controls an investee. The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes to at least one of the three elements. Retrospective application is required subject to certain transitional provisions.

The adoption of IFRS 10 has had no impact on the Company and these financial statements.

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Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting policies (continued)

Recent accounting developments (continued)

- > IFRS 11 applies to all entities that are parties to a joint arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. IFRS 11 establishes two types of joint arrangements, joint operations and joint ventures, which are distinguished by the rights and obligations of the parties to the arrangement. In a joint operation, the parties to the joint arrangement (referred to as 'joint operators') have rights to the assets and obligations for the liabilities of the arrangement. By contrast, in a joint venture, the parties to the arrangement (referred to as 'joint venturers') have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognise its share of the assets, liabilities, revenues and expenses in accordance with applicable IFRSs; however, a joint venturer would account for its interest by using the equity method of accounting under IAS 28 (2011). The amendments to IAS 28 did not affect the Company.

The Company has no joint arrangements and so there is no impact from the IFRS 11 requirements.

- > IFRS 12 integrates the disclosure requirements on interests in other entities, currently included in several standards to make it easier to understand and apply the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard also contains additional requirements on a number of topics. Under IFRS 12, an entity should disclose information about significant judgements and assumptions (and any changes to those assumptions) made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement. IFRS 12 also requires additional disclosures to provide information to enable users to assess the nature of, and risks associated with the Company's interests in other entities and the effect of those interests on the Company's financial position, performance and cash flow. Disclosures shall be aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

The Company has no holdings in subsidiaries, joint arrangements, associates and unconsolidated structured entities, so there's no impact from the IFRS 12 requirements.

Future accounting developments

The Company has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the Company:

- a) IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated. The second and third phases in the IASB's project to replace IAS 39 will address impairment of financial assets measured at amortised cost and hedge accounting.

The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2012 to address practice and other issues, with an exposure draft of revised proposals issued in November 2012 proposing limited improvements to IFRS 9. The exposure draft proposes a new category for debt instruments which is 'fair value through other comprehensive income' when certain criteria are met. The proposals were finalised in November 2013 and it is not yet possible to estimate the financial effects.

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Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting policies (continued)

Future accounting developments (continued)

- b) In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively. It is not practicable to quantify the effect as at the date of the publication of these financial statements.
- c) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. It is not practicable to provide a reasonable estimate of their effects of these standards or amendments on the Company's financial statements until a detailed review has been completed.

Foreign currency translation

Items included in the financial statements of the entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The functional and presentation currency of the Company is pounds sterling.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Interest income and expense

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset/liability to that asset's/liability's initial carrying amount. Interest income and expense is shown gross in the Statement of Comprehensive Income.

Income taxes

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the year 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 periods and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using statutory tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax assets and liabilities are only offset when they arise in the same tax reporting group and 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.

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Notes to the Financial Statements For the year ended 31 December 2013

1. Accounting policies (continued)

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value with transaction costs recognised in profit and loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company does not hold held-to-maturity or AFS financial assets.

(1) Financial assets at FVTPL

The Company's financial assets that are classified as FVTPL are derivatives that are not designated in a hedging relationship. Derivatives are initially recorded at fair value and subsequently remeasured to fair value through profit and loss. The Company has no other financial assets classified or designated as FVTPL (for discussion of the fair value measurement of financial assets at FVTPL see Valuation of financial instruments below).

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recorded at fair value plus transaction costs and are subsequently re-measured to amortised cost using the effective interest method (see impairment of financial assets below).

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, loans and advances to banks and amounts due from other banks.

Impairment of financial assets

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

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

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

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

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Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting policies (continued)

Financial liabilities

Financial liabilities include debt securities in issue shown on the face of the balance sheet, and accrued interest shown within financial liabilities.

Financial liabilities are initially recorded at fair value less transaction costs with subsequent re-measurement to amortised cost. The exception to this are financial liabilities which are designated in fair value hedge accounting relationships for and are re-measured to fair value at each reporting period.

The amortised cost is to be calculated using an Effective Interest Rate ("EIR") method. The EIR method spreads the expected interest arising from a financial liability over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payment and receipts arising from the loan to the initial carrying amount.

Valuation of financial instruments

Financial instruments that are classified as FVTPL, including those held for trading purposes, are stated at fair value. The fair value of such financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

Fair value hierarchy

The Company applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

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 markets that are not active, 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 2 positions include loans and receivables, cross currency swaps and debt securities in issue that are now being fair valued.
- 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. The Company has no assets or liabilities measured at fair value that are classified as Level 3.

The Company assesses active markets for instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. The Company assesses active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity. This information, together with the observation of active trading and the magnitude of the bid-offer spreads allow consideration of the liquidity of a financial instrument. All underlying assets and liabilities are reviewed to consider the appropriate adjustment to mark the mid price reported in the trading systems to a realisable value. This process takes into account the liquidity of the position in the size of the adjustment required.

In determining the appropriate measurement levels, the Company performs regular analyses on the assets and liabilities. All underlying assets and liabilities are regularly reviewed to determine whether a position should be regarded as illiquid; the most important practical consideration being the observability of trading. Where the bid-offer spread is observable, this is tested against actual trades. If trades are not observed, the bid-offer spread is disregarded as a sign of liquidity and the position is regarded as illiquid.

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Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting policies (continued)

Valuation of financial instruments (continued)

Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy. As at 31 December 2013, the Company held no equity instruments nor exchange traded derivatives.

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated based on the market price.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Valuation parameters for each type of financial instrument are discussed below.

The Company did not make any material changes to the valuation techniques and internal models it used during the year ended 31 December 2013.

Fair value valuation bases

The following tables summarise the fair values at 31 December 2013 and 2012 of the asset and liability classes accounted for at fair value, by the valuation methodology used by the Company to determine their fair value.

The tables also disclose the percentages that the recorded fair values of financial assets and liabilities represent of the total assets and liabilities, respectively, that are recorded at fair value in the balance sheet.

31 December 2013	Internal models based on						Total £000	%	Valuation technique
	Balance sheet category	Level 1 £000	%	Level 2 £000	%	Level 3 £000			
Assets									
Financial instruments –									
Interest rate swap	-	-	38,880	87	-	-	38,880	87	A
Cross currency swap	-	-	5,911	13	-	-	5,911	13	A
Total financial assets at fair value	-	-	44,791	100	-	-	44,791	100	
Liabilities									
Financial instruments –									
Cross currency swap	-	-	(97,703)	25	-	-	(97,703)	25	A
Derivatives designated and effective as hedging instruments carried at fair value			(139,395)	36			(139,395)	36	A
Debt securities in issue in fair value hedge relationships	-	-	(148,887)	39	-	-	(148,887)	39	A
Total financial liabilities at fair value	-	-	(385,985)	100	-	-	(385,985)	100	

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Notes to the Financial Statements For the year ended 31 December 2013

1. Accounting policies (continued)

Fair value valuation bases (continued)

31 December 2012 Balance sheet category	Internal models based on						Total £000 %		Valuation technique
	Level 1 £000 %		Level 2 £000 %		Level 3 £000 %				
Assets									
Financial instruments –									
Interest rate swap	-	-	61,025	78	-	-	61,025	78	A
Cross currency swap	-	-	17,234	22	-	-	17,234	22	A
Total financial assets at fair value	-	-	78,259	100	-	-	78,259	100	
Liabilities									
Financial instruments –									
Cross currency swap	-	-	(296,201)	100	-	-	(296,201)	100	A
Debt securities in issue in fair value hedge relationships	-	-	-	0	-	-	-	0	A
Total financial liabilities at fair value	-	-	(296,201)	100	-	-	(296,201)	100	

There have been no transfers between the levels during the current and preceding year.

Valuation techniques

The main valuation technique employed in the Company's internal models to measure the fair value of the financial instruments disclosed above at 31 December 2013 is set out below. The principal inputs into these models are derived from observable market data.

A In the valuation of financial instruments requiring static hedging (for example interest rate and cross currency swaps) and in the valuation of loans and receivables, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cashflows and maturities of the instruments.

In determining fair value, the Company also considers both the credit risk of its counterparties, as well as its own creditworthiness. The Company attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements.

Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments. The Company generally calculates the credit risk adjustment for derivatives on observable credit data. Credit risk is measured using dynamic models that calculate the probability and potential future exposure given default. The main inputs used in these models are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads and the correlation between individual issuers' quoted credit derivatives.

Derivative financial instruments

The Company holds cross currency swaps in order to manage foreign currency risk arising on the non-sterling debt securities in issue. These require the Company to pay a rate based on three-month sterling LIBOR and receive US dollar, EURIBOR and Japanese Yen receipts.

The Company also holds derivative financial instruments to hedge significant future transactions and cash flows dependent on movement in interest rates. The Company enters into interest rate swaps in the management of this exposure. As at 31 December 2013, the Company had in place interest rate swaps derivative financial instruments with a maximum maturity of October 2017. For certain issuances of debt at a fixed rate, interest rate derivatives are used to convert the rate to variable rates and fair value hedge accounting is applied to these relationships.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are as designated as hedging instruments and if the latter, the nature of the risks being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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Notes to the Financial Statements For the year ended 31 December 2013

1. Accounting policies (continued)

Hedge accounting

The Company applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge interest rate and exchange rate.

At the time a financial instrument is designated as a hedge (i.e., at the inception of the hedge), the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, the Company formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Company can expect, and actual results indicate, that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges'). The Company applies fair value hedge accounting and cash flow hedge accounting but not hedging of a net investment in a foreign operation.

a) Fair value hedge accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in net other operating income/expense 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. Where the hedged item is measured at amortised cost, the fair value changes due to the hedged risk adjust the carrying amount of the hedged asset or liability. For fair value hedges, changes in the fair value of the hedging instrument and hedged item is included in net other operating income/expense in the Statement of Comprehensive Income.

b) Cash flow hedge accounting

The effective portion of changes in the fair value of qualifying cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts accumulated in equity are reclassified to the Statement of Comprehensive Income in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the profit and loss when the forecast transaction is ultimately recognised in the profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss included in the Statement of Comprehensive Income.

The Company is exposed to cash flow foreign currency risk on its floating rate debt issuances denominated in foreign currency. Cash flow hedging is used to hedge the variability in cash flows arising from this risk.

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Notes to the Financial Statements
For the year ended 31 December 2013

1. Accounting policies (continued)

Critical accounting policies and areas of significant management judgement

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 ongoing 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. Estimates and judgements that are considered important to the portrayal of the Company's financial condition including, where applicable, quantifications of the effects of reasonably possible ranges of such estimates and judgements are set out in the Accounting Policies in the Financial Statements.

2. Segmental reporting

The Company operates in one business sector and all of the Company's activities are in the UK.

3. Interest income

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Interest income on loan to fellow Santander UK Group undertaking	265,591	368,822
Other interest income	1	1
Derivative interest income	650	-
	266,242	368,823

4. Interest expense

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Derivative interest expense	-	15,861
Interest expense on debt securities in issue	264,337	351,249
	264,337	367,110

5. Other expenses

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Fair value hedging:		
- Gains on hedging instruments	(2,571)	-
- Gains on hedged items attributable to hedged risks	2,370	-
Fair value hedging ineffectiveness	(201)	-
Cash flow hedging ineffectiveness	2,844	-
Fair value gains / (losses) on derivative financial instruments	25,198	(461,882)
Translation (losses) / gains of debt securities in issue	(50,363)	432,036
	(22,522)	(29,846)

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6. Administrative expenses

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Administration fees and bank charges	1,717	1,694
	1,717	1,694

7. Auditor remuneration

The audit fee for the current year has been paid on the Company's behalf by its UK controlling undertaking, Santander UK plc, in accordance with Company policy, for which no charge has been made. The audit fee for the current year is £11,475 (2012: £11,700).

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the Santander UK plc consolidated financial statements are required to disclose such fees on a consolidated basis.

8. Directors' emoluments

Directors' emoluments for Mr T Ranger were borne by the UK controlling undertaking, Santander UK plc. (2012: position unchanged).

Apart from Mr Ranger, no other Directors received any remuneration for their qualifying services to the Company (2012: Nil). An amount of £20,995 was paid by the Company to Structured Finance Management Limited for the provision of corporate services including provision of directors (2012: £22,806).

The Company has no employees (2012: Nil).

9. Taxation

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Current taxation:		
UK corporation tax on loss for the year	1	4
Tax charge on loss for the year	1	4

UK corporation tax is calculated at 23.25% (2012: 24.5%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 24% to 23% with effect from 1 April 2013.

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax to 21% effective from 1 April 2014, and 20% effective from 1 April 2015, was enacted on 17 July 2013. The small profits rate of UK corporation tax remains at 20%.

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

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Loss before tax	(22,334)	(29,827)
Tax calculated at a rate of 23.25% (2012: 24.5%)	(5,193)	(7,308)
Non deductible expenses	5,194	7,313
Benefit of small profits rate	-	(1)
Tax charge for the year	1	4

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Notes to the Financial Statements
For the year ended 31 December 2013

10. Cash and cash equivalents

	31 December 2013 £000	31 December 2012 £000
Deposits with group undertakings	90	12,758

Within the above balance is £nil (2012: £12,669,000) held as collateral against external swap providers. These funds are restricted.

11. Loans and receivables

	31 December 2013 £000	31 December 2012 £000
Loan to fellow Santander UK Group undertaking due:		
within one year	44,178	62,362
After five years	11,445,568	16,313,827
	11,489,746	16,376,189

The carrying amount of loans and advances to group companies approximates to their fair value.

12. Financial liabilities

	31 December 2013 £000	31 December 2012 £000
Accrued interest payable	50,874	67,698
Restricted cash held due to downgrading of credit ratings	-	12,669
	50,874	80,367

13. Debt securities in issue

	31 December 2013 £000	31 December 2012 £000
Debt securities in issue		
Due within one year	-	154,003
Due after five years	11,225,151	15,891,414
	11,225,151	16,045,417

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Notes to the Financial Statements
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13. Debt securities in issue (continued)

The tables below disclose the list of debt securities in issue.

	Cur	2013 £000	2013 Issued currency 000	2012 £000	2012 Issued currency 000
Issue: 2006					
Series 1 Class A4 Floating Rate Notes 2054	GBP	-	-	308,074	308,074
Series 1 Class B3 Floating Rate Notes 2054	EUR	-	-	30,057	37,000
Series 1 Class B4 Floating Rate Notes 2054	GBP	-	-	16,750	16,750
Series 1 Class M3 Floating Rate Notes 2054	EUR	-	-	22,340	27,500
Series 1 Class M4 Floating Rate Notes 2054	GBP	-	-	13,750	13,750
Series 1 Class C3 Floating Rate Notes 2054	EUR	-	-	18,278	22,500
Series 1 Class C4 Floating Rate Notes 2054	GBP	-	-	6,250	6,250
				415,499	

	Cur	2013 £000	2013 Issued Currency 000	2012 £000	2012 Issued Currency 000
Issue: 2010					
Series 1 Class A1 Floating Rate Notes 2054	GBP	174,910	174,910	205,000	205,000
Series 1 Class A2 Floating Rate Notes 2054	EUR	552,668	661,244	629,571	775,000
Series 1 Class A3 Fixed Rate Notes 2054	GBP	525,000	525,000	525,000	525,000
Series 1 Class Z Floating Rate Notes 2054	GBP	389,000	389,000	389,000	389,000
Series 2 Class A1 Floating Rate Notes 2054	USD	-	-	550,594	893,806
Series 2 Class A2 Floating Rate Notes 2054	EUR	-	-	302,535	372,419
Series 2 Class A3 Floating Rate Notes 2054	GBP	-	-	156,416	156,416
Series 2 Class Z Floating Rate Notes 2054	GBP	-	-	251,000	251,000
Series 3 Class A1 Floating Rate Notes 2054	GBP	-	-	1,062,585	1,062,585
Series 3 Class A2 Floating Rate Notes 2054	GBP	1,186,790	1,186,790	1,250,000	1,250,000
Series 3 Class A3 Floating Rate Notes 2054	GBP	1,000,000	1,000,000	1,000,000	1,000,000
Series 3 Class Z Floating Rate Notes 2054	GBP	500,000	500,000	500,000	500,000
Series 4 Class A1 Floating Rate Notes 2054	GBP	-	-	599,953	599,953
Series 4 Class A2 Floating Rate Notes 2054	EUR	-	-	505,423	622,174
		4,328,368		7,927,077	

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Notes to the Financial Statements
For the year ended 31 December 2013

13. Debt securities in issue (continued)

(*) Included in the carrying amount of debt securities in issue is the following debt security in issue which is in a fair value hedging relationship. The fair value hedged accounting valuation adjustments arising for the loan note is:

	2013 £000	2012 £000
Issue 2011 Series 2 Class A5	2,370	-
	2,370	-

The fair value movements of this debt security in issue were:

	Issue 2011-2 Series 1 Class £000	Total £000
At 31 December 2011		
Fair value movement attributable to hedged risks	-	-
At 31 December 2012		
Loan note in new fair value hedging relationship	154,003	154,003
Foreign exchange movement	(2,746)	(2,746)
Fair value movement attributable to hedged risks	(2,370)	(2,370)
At 31 December 2013	148,887	148,887

All the Class A notes of each series will rank in priority to each series of Class B notes.

Interest is payable on the debt securities in issue at variable rates based on the one-month and three-month US Dollar LIBOR, three-month EURIBOR, Sterling LIBOR, AUS Dollar LIBOR and Japanese Yen LIBOR.

The Company's obligations to noteholders, and to other secured creditors, are secured under a deed of charge that grants security over all of its assets in favour of the security trustee. The principal assets of the Company are loans made to Fosse Funding Limited, a group company, whose obligations in respect of these loans, are secured under a deed of charge which grants security over all its assets, primarily comprising shares in a portfolio of residential mortgage loans, in favour of the security trustee. These mortgages fail the derecognition criteria described in IAS 39 and as such are represented by a receivable on the balance sheet of Fosse Funding Limited, though legally Fosse Funding Limited is entitled to the income from these mortgages. The security trustee holds this security for the benefit of all secured creditors of Fosse Funding Limited, including the Company.

The Company's debt securities in issue are denominated in US Dollar, Euros, Australian Dollar, Japanese Yen and Pounds Sterling. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet.

14. Share capital

	31 December 2013 £	31 December 2012 £
Called up, issued and partly paid		
- ordinary share of £1 each: 25p called up and partly paid	12,500	12,500

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Notes to the Financial Statements For the year ended 31 December 2013

15. Hedging

Hedging reserve

	2013 £000	2012 £000
Loss recognised in other comprehensive income on cash flow hedges:		
- cross currency swaps	1,379	-

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss consistent with the applicable accounting policy.

Cash flow hedging

31-Dec-13	0 - 1 years £000	1 - 2 years £000	2 - 3 years £000	3 - 4 years £000	Total £000
Hedged forecast cash flows expected to occur:					
Forecast receivable cash flows	(1,107)	(456)	(167)	(185)	(1,915)
Hedged forecast cash flows affect profit or loss:					
Forecast receivable cash flows	(1,105)	(455)	(167)	(185)	(1,912)

There were no hedging instruments designated as cash flow hedges during the year ended 31 December 2012.

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 31 December 2013 as a result of the highly probable cash flows no longer being expected to occur.

Gains and losses transferred from the cash flow hedging reserve in the current year to other expense was a £62m loss (2012: £nil).

16. Related party transactions

During the year, fees of £20,995 (2012: £22,806) were charged by Structured Finance Management Limited in respect of corporate services provided to the Company which included fees for the provision of directors to the Company. These amounts were owed to Structured Finance Management Limited at the year end.

SFM Corporate Services Limited is a wholly owned subsidiary of Structured Finance Management Limited.

Fosse Funding (No.1) Limited and the Company are related parties by virtue of their common ownership.

There have been no transactions with key management personnel during the year, other than those disclosed elsewhere in these financial statements in respect of transactions with Structured Finance Management Limited.

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

	Interest Expense		Amounts due to related parties		Interest Income		Amounts due from related parties		Cash and cash equivalents	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Santander UK plc Group	31,585	58,572	2,894,196	2,979,041	1	1	44,791	62,702	90	89
Abbey National Treasury Services	-	-	-	-	-	-	-	-	-	12,669
Fosse Funding (No.1) Ltd.	-	-	-	-	266,241	368,822	11,489,746	16,376,189		

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Notes to the Financial Statements For the year ended 31 December 2013

17. Risk management policy and control framework

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

The principal risks arising from the Company's financial instruments (both assets and liabilities) are credit risk, interest rate risk, foreign exchange risk and liquidity risk. The principal nature of such risks are summarised below.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due.

The Company's ability to make payments of principal and interest on the debt securities in issue and to pay its operating and administrative expenses will depend primarily on payments being received by it under the related party loan agreement with a fellow Santander UK Group undertaking. The fellow Santander UK Group undertaking's payments depend on payments received from the underlying mortgage loans held in the Fosse Master Trust, a fellow group undertaking, for its benefit. The quality of the underlying mortgage loans is covered by eligibility criteria as set out in the transaction documents.

In addition, the Company relies on cross currency and interest rate swaps to make payments on the notes which are not denominated in sterling (or notes, if any, which carry a fixed rate of interest). The Company has credit risk exposure to the swap provider. Swap providers also have to meet pre-determined eligibility credit criteria. If subsequently there is a ratings downgrade remedial measures include provision of collateral for obligations under the relevant swap.

	31 December 2013 £000	31 December 2012 £000
Loan to fellow Santander UK Group undertaking	11,489,746	16,376,189
Derivative financial instruments	44,791	78,259
	11,534,537	16,454,448

No amounts are past due or impaired.

The Fosse structure comprising the immediate parent and fellow subsidiaries is over collateralised by £3.4bn (2012: £3.2bn). The structure has cash balances of £1.4bn (2012: £2.0bn) which also act as credit enhancement.

Santander UK plc is rated periodically by credit rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings, Ltd.

Santander UK plc's credit rating is disclosed below as the financial assets of the Fosse securitisation structure are secured on mortgage assets within Santander UK plc. Details and the performance of the underlying mortgage assets are disclosed in the Santander UK plc accounts and quarterly investor reports of Fosse Master Trust.

Santander UK plc's credit ratings as at 31 December 2013 were:

	S&P	Moody's	Fitch
Long-term rating	A	A2	A
Long-term rating outlook	Negative	Negative	Stable
Short term	A-1	P-1	F1

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17. Risk management policy and control framework (continued)

Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Company is subject to market risk in the form of interest rate and currency risks. As a result of the cross currency swaps the Company's total interest income and expense on financial assets and liabilities is based on the same rate of sterling LIBOR, it therefore has no material cash flow sensitivity to changes in interest rates or currency rates in 2013.

Interest Rate Risk

The Company's key interest rate risk is between interest payable on the debt securities in issue denominated in foreign currency and interest receivable based on GBP LIBOR under related party loan agreements.

A 50bp increase or decrease in interest rates would have an immaterial impact on profit and loss included in the Statement of Comprehensive Income and on net assets.

Foreign Exchange Risk

This risk arises due to the issue of debt securities in issue denominated in foreign currencies funding the loan to a fellow Group undertaking which is denominated in sterling. This risk is eliminated by entering into cross currency swap agreements to minimise the exposure.

All of the Company's assets and liabilities are denominated in sterling with the exception of the debt securities in issue denominated in foreign currencies, which are described in note 13. It was a condition of the issue of these notes that interest rate and currency swaps were put in place for the duration of the borrowing, having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result the Company has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk given the currency impact to the debt securities in issue and the cross currency swaps would be offsetting.

The Company receives foreign currency interest and principal payments under swap agreements in amounts equivalent to that due on the notes, in exchange for the payment of sterling interest based upon three month GBP LIBOR and principal repayments under the underlying mortgage loans.

Liquidity risk

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

Liquidity is managed by the Company by matching the terms of the financial instruments so that cash inflows meet cash outflows. The receipts from the related party loan asset and the payments in respect of the derivative financial instruments described above are matched. The receipts from the derivative financial instruments and the payments required in respect of the debt securities in issue described above are also matched.

Maturities of financial liabilities

The following tables analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period at the Balance Sheet date (to contractual maturity). These have been drawn on the undiscounted contractual maturities of financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

	Less than one month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000	Over five years £000	Total £000
2013						
Debt securities in issue	-	-	-	-	11,227,521	11,227,521
Interest payable on debt securities	50,874	-	197,266	860,796	7,747,167	8,856,103
Derivative financial liabilities						
Cashflows	5,805	-	21,239	219,624	30,529	277,197
	56,679	-	218,505	1,080,420	19,005,217	20,360,821

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Notes to the Financial Statements For the year ended 31 December 2013

17. Risk management policy and control framework (continued)

Maturities of financial liabilities (continued)

2012—						
Debt securities in issue	-	-	154,003	-	15,891,414	16,045,417
Interest payable on debt securities	67,698	-	274,021	1,195,072	11,054,520	12,591,311
Derivative financial liabilities						
Cashflows	6,397	-	5,616	433,116	27,234	472,363
	74,095	-	433,640	1,628,188	26,973,168	29,109,091

These figures reflect the contractual maturity on securitisation to 2054.

The maturity analysis above for derivative financial instrument liabilities has been drawn up based in undiscounted net cash (inflows)/outflows on the derivative instruments which settle on a net basis and the undiscounted gross outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amounts disclosed have been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The maturity analyses above for derivative financial liabilities include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. These consist of interest rate swaps and cross-currency swaps which are used to hedge the Company's exposure to interest rates and exchange rates, and all loan commitments. The undiscounted cash flows for the derivative financial instruments comprise only the amounts payable under the contract. Under the terms of the contract these cash outflows are accompanied by related cash inflows.

18. Derivative financial instruments

A derivative is an agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other financial prices. Derivatives are used to manage interest and currency risks by the Company.

The use of derivatives is determined in the transaction documents at the time of issue of each series of notes.

All derivatives are recorded at fair value through profit or loss, except those which have been designated in effective cash flow hedging relationships where the effective portion of the change in fair value is recorded in other comprehensive income.

19. Capital management and financial resources

Capital held by the Company and managed centrally as part of the Santander UK group, comprises share capital and reserves.

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 have been received and amounts owing have been paid. The Company's capital is not externally regulated.

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20. Parent undertaking and controlling party

The Company's parent company is Fosse (Master Issuer) Holdings Limited. The entire share capital of Fosse (Master Issuer) Holdings Limited is held by SFM Corporate Services Limited on a discretionary trust basis for the benefit of certain charities.

SFM Corporate Services Limited is a wholly owned subsidiary of Structured Finance Management Limited. Copies of the financial statements of SFM Corporate Services Limited may be obtained from 35 Great St Helen's, London, EC3A 6AP.

In accordance with IFRS 10 Consolidated financial Statements, the Company is controlled by Santander UK plc and is therefore consolidated in the Santander UK Group accounts. Santander UK plc is incorporated in Great Britain and is registered in England and Wales.

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

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