ALLIANCE & LEICESTER plc

Registered in England and Wales
No. 3263713

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2012

ALLIANCE & LEICESTER plc
COMPANY NUMBER· 3263713

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended 31 December 2012

Principal activity and business review

The principal activity of the Company was the provision of an extensive range of personal financial services In addition, the Company provided a wide range of banking and financial services to business and public sector customers

Following the transfer of almost all the Company's business to Santander UK plc in 2010 under a business transfer scheme pursuant to Part VII of the Financial Services and Markets Act 2000 ('FSMA'), the only business remaining in the Company was a small portfolio of corporate loans which was transferred to Santander UK plc in 2011 On 5 January 2012, the Company's banking licence and associated Financial Services Authority (FSA) permissions were surrendered and the Company ceased to be regulated by the FSA

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

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

Principal risks and uncertainties

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 7

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £970,000 (2011 £1,000,000)

The results of the Company are discussed in the Principal Activities and Business Review above The Directors do not recommend the payment of a final dividend (2011 nil)

Directors

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

A P Botín
J M Nus
S Pateman

Lord Burns	(resigned on 13 March 2012)
J R Inciarte	(resigned on 13 March 2012)
R Brown	(resigned on 13 March 2012)
J M Fuster	(resigned on 13 March 2012)
R Thorne	(resigned on 13 March 2012)

REPORT OF THE DIRECTORS (continued)

Statement of Directors' responsibilities

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 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 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

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 8 and 7 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 market risk

The Company is part of the Santander UK group The Directors have taken account of the fact that the Board of Santander UK plc has confirmed that Santander UK plc is a going concern 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 resources to continue in operational existence for the foreseeable future Accordingly, they adopt the going concern basis of accounting in preparing the annual report and accounts

Financial instruments

The Company's risks are managed on a Group level by the ultimate UK parent company, Santander UK plc

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

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 7

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 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

REPORT OF THE DIRECTORS (continued)

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 The Company has no creditors and is unable to quantify the practice on payment of creditors

Auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's 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 by the Company's forthcoming Annual General Meeting

By Order of the Board

For and on behalf of
Alliance & Leicester plc, Secretary

18 March 2013

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALLIANCE & LEICESTER plc

We have audited the financial statements of Alliance & Leicester plc (the "Company") for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 9 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 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 2012 and of its profit 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 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

Matthew Perkins

Matthew Perkins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 March 2013

ALLIANCE & LEICESTER plc
COMPANY NUMBER. 3263713

FINANCIAL STATEMENTS
For the year ended 31 December 2012

Income Statement
For the year ended 31 December 2012

Discontinued operations	2012 £m	2011 £m
Interest and similar income	1	3
Interest expense and similar charges	-	(2)
Net interest income	**1**	1
Profit before tax	**1**	1
Taxation charge	-	-
Profit for the year	**1**	1
Attributable to		
Equity holders of the Company	**1**	1

All profits during the year were generated from discontinued operations (2011 All discontinued)

Statement of Comprehensive Income
For the year ended 31 December 2012

	2012 £m	2011 £m
Profit for the year	**1**	1
Total comprehensive income for the year	**1**	1
Attributable to equity holders of the Company	**1**	1

Balance Sheet
At 31 December 2012

	Notes	2012 £m	2011 £m
Assets held for distribution to owners			
Loans and advances to banks		**168**	168
Total assets held for distribution to owners		**168**	168
Liabilities held for distribution to owners			
Deposits by banks		-	1
Total liabilities held for distribution to owners		-	1
Equity			
Share capital	3	**1,228**	1,228
Share premium	3	**124**	124
Capital redemption reserve		**90**	90
Retained earnings		**(1,274)**	(1,275)
Total ordinary shareholders' equity		**168**	167
Total liabilities and equity		**168**	168

The accompanying notes form an integral part of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2013 and signed on its behalf by S. Pateman.

Director

ALLIANCE & LEICESTER plc
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FINANCIAL STATEMENTS
For the year ended 31 December 2012

Statement of Changes in Equity
For the year ended 31 December 2012

	Share Capital £m	Share Premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
1 January 2011	1,228	124	90	(1,276)	166
Profit for the year	-	-	-	1	1
31 December 2011	1,228	124	90	(1,275)	167
1 January 2012	**1,228**	**124**	**90**	**(1,275)**	**167**
Profit for the year	**-**	**-**	**-**	**1**	**1**
31 December 2012	**1,228**	**124**	**90**	**(1,274)**	**168**

Cash Flow Statement
For the year ended 31 December 2012

Discontinued operations	2012 £m	2011 £m
Net cash flow used in operating activities	-	-
Net cash flow used in financing activities	-	-
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1 Accounting Policies

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as approved by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB that, under European Regulations, are effective and available for early adoption at the Company's reporting date Alliance & Leicester plc (the 'Company') have complied with IFRS as issued by the IASB in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union

The financial statements have been prepared under the historical cost convention and on the going concern basis as disclosed in the Directors' Statement of Going Concern set out in the Report of the Directors

Recent accounting developments

There are a number of other changes to IFRS that were effective from 1 January 2012 Those changes did not have a significant impact on the Company's financial statements

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) 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 will 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 Company anticipates that IAS 1 (2011) will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard will modify the presentation of items of other comprehensive income accordingly Retrospective application is required The Company does not anticipate that these amendments to IAS 1 will have a significant impact on the Company's disclosures

(b) There are a number of other standards which have been issued or amended that are expected to be effective in future periods However, it is not practicable to provide a reasonable estimate of their effects on the Company's financial statements until a detailed review has been completed

Foreign currency translation

Items included in the Financial Statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances ('the functional currency') The Financial Statements are presented in pounds sterling, which is the functional currency of the Company

Foreign currency transactions are translated into the functional currency of the Company 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 income statement

1 Accounting Policies (continued)

Revenue recognition

Interest income and expense

Income on financial assets that are classified as loans and receivables or available-for-sale, and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts Interest income on assets classified as loans and receivables or available-for-sale, interest expense on liabilities classified at amortised cost and interest income and expense on hedging derivatives are recognised in interest and similar income and interest expense and similar charges in the income statement

Financial assets

The Company classifies its financial assets as loans and receivables Management determines the classification of its investments at initial recognition

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or fair value through profit or loss They arise when the Company provides money or services directly to a customer with no intention of trading the loan Loans and receivables are initially recognised at fair value including direct and incremental transaction costs They are subsequently valued at amortised cost, using the effective interest method They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership Loans and receivables consist of Loans and advances to banks, Loans and advances to customers and Loans and receivables securities

Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets classified as available-for-sale or loans and receivables have become impaired Evidence of impairment may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower

Income taxes, including deferred taxes

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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

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 provided in full, using the liability method, 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 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 and 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 charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Company is able to control reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future The Company reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered Deferred and 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

ALLIANCE & LEICESTER plc
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1 Accounting Policies (continued)

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, and loans and advances to banks

Share capital

Incremental external costs directly attributable to the issue of new shares are deducted from equity net of related income taxes

Dividends

Dividends on ordinary shares are recognised in equity in the period in which the right to receive payment is established

2 Audit services

The statutory audit fee for the current year and prior year has been paid on the Company's behalf by the ultimate UK parent company, Santander UK plc, in accordance with company policy, for which no recharge has been made The statutory audit fee for the current year is £5,100 (2011 £100,000)

3 Share capital and share premium

(a) Share capital

	2012 £m	2011 £m
Issued and fully paid		
Ordinary shares o £0 50 each	**1,228**	**1,228**
At 31 December	**1,228**	**1,228**

(b) Share premium

	2012 £m	2012 £m
At 1 January	**124**	**124**
At 31 December	**124**	**124**

4 Directors' emoluments and interests

The remuneration of the Directors of the Company is set out in the 'Directors' Remuneration' table in the Santander UK plc 2012 Annual Report and Accounts Any loans, quasi loans and credit transactions entered into or agreed by the Company with persons who are or were Directors, Other Key Management Personnel and each of their connected persons during the year are set out in the Santander UK plc Annual Report and Accounts 2012 and 2011 No directors were remunerated for their services to the Company Directors' emoluments are borne by the ultimate UK parent company Santander UK plc No emoluments were paid by the Company to the Directors during the year (2011 £nil)

5 Related party disclosures

Transactions with Directors, Other Key Management Personnel and each of their connected persons
Any transactions undertaken by Directors, Other Key Management Personnel and their connected persons with the Company in the course of normal banking for 2012 and 2011 are set out in the Santander UK plc Annual Report and Accounts

Remuneration of Key Management Personnel
The remuneration of the Directors and Other Key Management Personnel of the Company, in aggregate for each of the categories specified in IAS 24 Related Party Disclosures for 2012 and 2011 is set out in the Santander UK plc Annual Report and Accounts Further information about the aggregate remuneration of the Directors in 2012 and 2011 is provided in the 'Directors' Remuneration' table in the Santander UK plc Annual Report and Accounts

Transactions with related parties
Transactions with related parties during the year and balances outstanding at the year end

	Interest, fees and other income received		Interest fees and other expenses paid		Amounts owed by related parties		Amounts owed to related parties	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Parent company	**1**	1	**-**	(1)	**168**	168	**-**	-
Fellow subsidiaries	**-**	-	**-**	-	**-**	-	**-**	(1)
	1	1	**-**	(1)	**168**	168	**-**	(1)

6 Financial instruments

a) Measurement basis of financial assets and liabilities

At 31 December 2012 and 31 December 2011, all the Company's financial assets and financial liabilities were measured on an ongoing basis at amortised cost

b) Fair values of financial instruments carried at amortised cost

Fair value management

The fair value exposures are managed by using a combination of hedging derivatives and offsetting on balance sheet positions The approach to specific categories of financial instruments is described below

Assets

Loans and advances to banks
The carrying amount is deemed a reasonable approximation of the fair value, because they are short term in nature

Liabilities

Deposits by banks
The carrying amount is deemed a reasonable approximation of the fair value, because it is short-term in nature

c) Fair value valuation bases of financial instruments carried at fair value

At 31 December 2012 and 31 December 2011, there were no financial assets and liabilities accounted for at fair value

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

7 Risk management

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

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

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 Company is exposed to credit risk on receivables relating to amounts due from its immediate parent company The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance Sheet, refer to note 6 to the financial statements

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 majority of market risk arises as a result of interest rate risk on the receivable balance and their corresponding interest income

8 Capital Management and Resources

The Company's ultimate parent company, Santander UK plc adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK Group The Company has no non-centralised process for managing its own capital Disclosures relating to the Santander Group's capital management can be found in the Santander UK Annual Report and Accounts

Capital held by the Company and managed centrally as part of the Santander UK Group, comprises share capital and reserves which can be found in the Balance Sheet on page 5

9 Parent undertaking and controlling party

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

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

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