GE Capital Services Limited

Pillar 3 Disclosure

31 December 2008

Contents

1 Introduction

The new Basel II Accord replaces the 1988 Basel Capital Accord. The supervisory objective of the Basel II Accord is to promote safety and soundness in the financial system and it requires banks to maintain an appropriate level of capital to cover the risks inherent in their business model. The Basel II framework is based around three ‘pillars’. It requires banks to disclose information about their risk and capital management framework (Pillar 3) and aims to complement the minimum capital requirements specified in Pillar 1 and is subject to the supervisory review process set out in Pillar 2.

In the European Union, Basel II was implemented by the Capital Requirements Directive (CRD) with effect from 1 January 2007. In the UK, the Financial Services Authority (FSA) implemented Basel II and the CRD by publishing new FSA rules in the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Transitional provisions meant that banks could continue to apply the existing Basel 1 calculations of risk weighted assets and equivalent capital resources requirements until 1 January 2008.

From 1 January 2007 GE Capital Services Ltd (the Group) has applied the Basel I regime to its capital resources and relied on the transitional provisions. From 1 January 2008 the Group has applied Basel II to its capital requirement calculations, its Internal Capital Adequacy Assessment Process (ICAAP) and to the risk and capital disclosures.

The purpose of this document is to satisfy the requirements for Pillar 3 (disclosure); the information provided is in accordance with the rules laid out in the FSA handbook BIPRU Chapter 11. The information does not constitute any form of financial statement, must not be relied upon in making any judgment on the Group and is not subject to external audit.

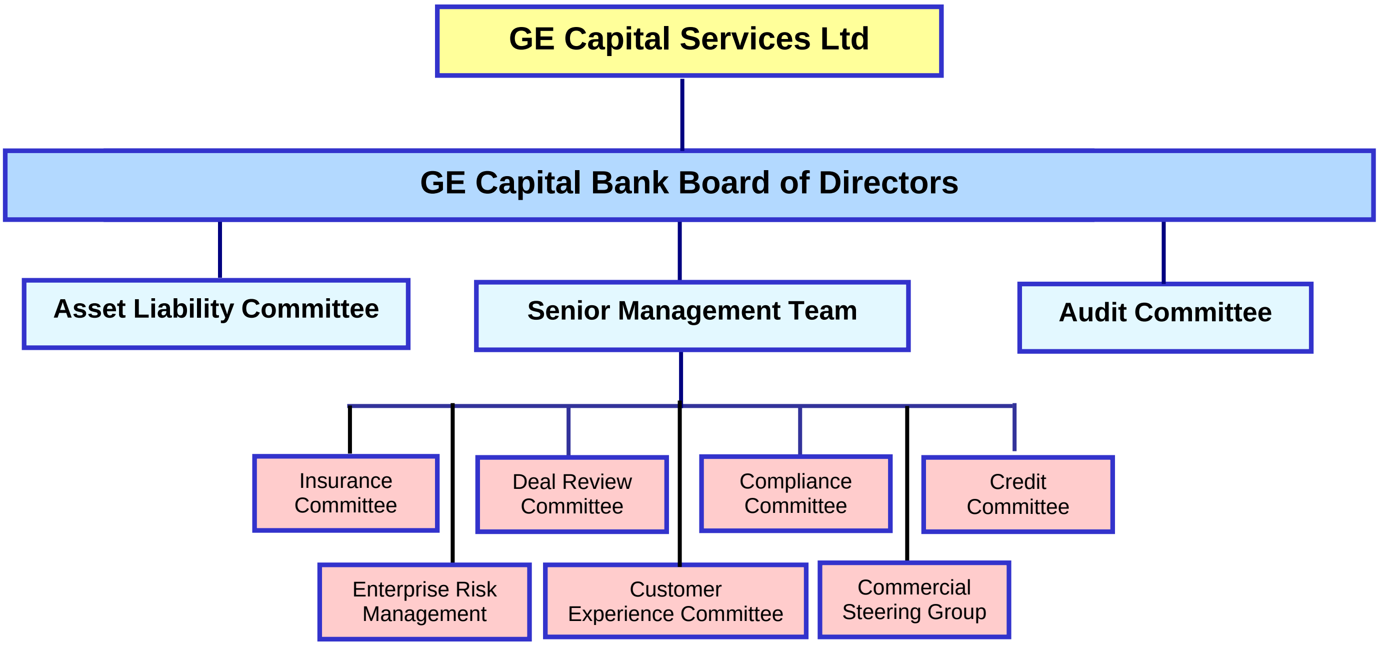
This disclosure applies to GE Capital Services Ltd (the Group) with the following to be noted:

- As of 31 December 2008, the Group was an affiliated company of, and indirectly controlled by, General Electric Company and its subsidiary General Electric Capital Services, Inc. Neither General Electric Company nor General Electric Capital Services, Inc. are subject to Pillar 3 disclosure requirements.
- As of 31 December 2008, GE Capital Bank Ltd (the Bank), FSA Number 204572, was a wholly owned subsidiary of the Group.
- GE Capital Bank Ltd provides a range of consumer credit and auto dealership financing in the UK market.
- The basis of consolidation for prudential purposes is the same as the basis of consolidation shown in the Group’s 2008 Annual Report and Accounts.
- On 7th January 2009, GE Capital Bank Ltd and its subsidiaries were sold by GE Capital Services Ltd to Banco Santander S.A., a company incorporated in Spain.
- Since the sale to Banco Santander S.A., GE Capital Bank Ltd is no longer affiliated with nor indirectly controlled by General Electric Company, General Electric Capital Services, Inc. nor GE Capital Services Ltd.

All figures within this document are stated **as at 31 December 2008** unless otherwise noted. Comparatives have not been shown as the first year of Basel II adoption was 2008.

2 Board and Governance Structure

The Group's governance structure contains three committees with delegated authority from the GE Capital Bank Board (the Board). Two of these are the Asset and Liability Committee and Audit Committee. The third is the Senior Management Team from which seven further sub-committees receive delegated authority.



2.1 Asset & Liability Committee (ALCO)

ALCO reviews capital adequacy and monitors key risk drivers impacting capital requirements such as interest rates and credit risk.

2.2 Audit Committee

Audit Committee reviews and reports on the adequacy of the systems and controls for the Group, chaired by a non-executive board member to provide independent oversight.

2.3 Senior Management Team (SMT)

The SMT's primary purpose is to implement the Group's goals through strategic and tactical steps taken in each of the functional areas, the performance of which is monitored against the annual business plan. The SMT has created groups of functional expertise to oversee the business in key areas.

2.3.1 Insurance Committee

The committee determines the market strategy for the insurance channel, approves changes to existing strategy and reviews the financial and regulatory performance of all insurance products, ensuring appropriate issues are escalated to SMT.

2.3.2 Customer Experience Committee (CEC)

CEC oversees the customer experience of the Group's products and services, ensuring that Treating the Customer Fairly (TCF) principles and practices are embedded and the customer journey is understood, with appropriate remedial or improvement actions taken if necessary.

2.3.3 Deal Review Committee (DRC)

DRC is designated the responsibility of reviewing the performance and enterprise wide risk of launching new lending and enhancing existing programs with retailers.

2.3.4 Enterprise Risk Management (ERM) Committee

ERM Committee has the responsibility for establishing and communicating the Group's risk tolerance for non-credit risks, identifying key issues and agreeing actions to manage the level of risk within tolerance levels.

2.3.5 Compliance Committee

Compliance Committee reviews the Group's adherence to legislation within the UK regulatory environment, develops compliance and regulatory plans, oversees regulatory and legislative developments and provides oversight of new legislation implementations.

2.3.6 Commercial Steering Group (CSG)

CSG reviews product developments and pricing changes for the Group's products.

2.3.7 Credit Committee

This purposes of this committee are:

- Establishing and communicating credit risk tolerance and philosophy in accordance with SMT guidelines.
- Providing a forum to identify and discuss key risk issues and to agree actions to manage the level of risk taken in the product lines.
- Ensuring compliance with GE Corporate risk management policies and procedures.
- Reviewing aggregate risk exposures and efficacy of risk measurement.

2.4 Management Information and Control

2.4.1 Management Information for Strategic Decision Making

The Group produces relevant management information each month, which is made available to its governance committees for decision making.

2.4.2 Strategy and Planning

The Group undertakes strategic financial planning annually, the result of which is a 3-year plan which provides a basis for the long term capital and funding requirements for the business and a detailed plan against which actual performance is monitored on a monthly basis.

The Group manages its capital and funding requirements to ensure these are maintained at a sufficient level to meet both the short term needs and longer term strategic objectives.

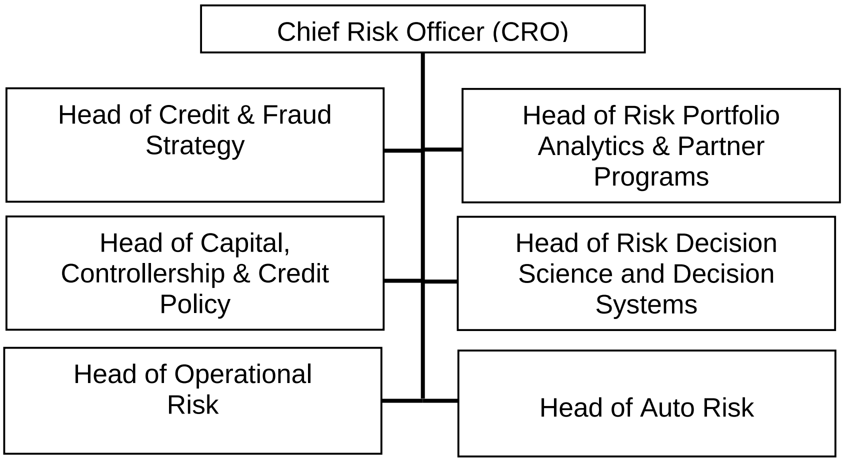
2.4.3 Capital Management

To ensure that the Group maintains sufficient levels of capital, decisions impacting performance, risk profile, risk appetite and capital requirements are managed via various control and governance mechanisms such as ALCO, Credit Committee, the internal deal approval process, the annual business planning process and the ICAAP.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the Group and its subsidiaries.

3 Risk Management Objectives & Policies

The risk management function in the Group plays a key role in ensuring the achievement of governance objectives and the measurement, assessment and control of risks in accordance with risk appetite. The structure of the risk management function is noted below:



- **Credit and Fraud Strategy** – defines, implements and monitors credit strategies across all products.
- **Portfolio Analytics and Partner Programs** - undertakes detailed review and production of portfolio performance metrics, loss forecasting and analysis.
- **Decision Science and Decision Systems** – model development, oversight and monitoring, assessment of risk tools and data and technical implementation of strategies into the relevant systems.
- **Controllership and Credit Policy** - risk governance and control including regulatory and industry liaison, intermediary underwriting, regulatory and economic capital assessment.
- **Operational Risk** - management and facilitation of the business-wide framework for the identification, assessment and management of tactical operational risks and strategic enterprise risks.
- **Auto Risk** - defines implements and monitors auto credit strategies and underwrites dealer relationships.

The following sections discuss the Group's policies and strategies for managing risks.

3.1 Business Risk

Business risk is the threat to the long-term income of the Group, or losses affecting the net book value of the Group.

During 2008, the Group classed business risk into two categories to focus effort in monitoring and setting appropriate strategies in each respective area.

- **Income P&L Risk** - The risk that lines of income change or cease, resulting in the business suffering severe loss. This risk is monitored via monthly performance tracking versus plan; early signs of income deterioration will receive management focus to investigate the reasons, employ remedial solutions and, if feasible, re-allocate capital to more profitable opportunities.

- **Retailer Engagement** - The likelihood that a retailer terminates a contract with the business or disengages from a current program, monitored and controlled via ERM and CSG.

In addition, to ensure sufficient management oversight of business risk within the Group, the strategic financial planning sessions require detailed assessment and forecasting of performance targets, with review and follow-up of key risks and concerns by SMT.

3.2 Macro Economic Risk

Macro economic risk is defined as the uncertainty of realising business P&L targets due to unplanned changes in the UK and/or global economy.

Close consideration is given to the outlook of the UK and global economies during the annual business planning process, which is then incorporated into the Group's forecasts. Trends in economic factors are reviewed monthly as part of the portfolio monitoring activities, which include an assessment of the impact on the business performance and outlook. In addition, during the ICAAP process the Group conducts stress tests against the business plan for a 1 in 25 year downturn event, which it uses to ensure adequate capital resources should such an event arise.

3.3 Credit Risk

Credit risk is the inherent likelihood that a counterparty of the Group does not meet its contractual obligations to return the principle and interest on the due dates agreed.

This risk is primarily due to exposures the Group has with customers on credit cards, sales finance products, unsecured personal loans, auto loans and commercial lending to auto dealerships. This risk is considered the most significant in the Group and therefore represents the largest focus of risk management policies, strategies and resource.

Before issuing and authorising a credit line, loan or lease for a customer, the Group performs a credit assessment check to ensure that lending is undertaken responsibly.

In order to ensure that credit risk is not exceeding the Group's risk appetite, credit quality is monitored monthly via a Portfolio Quality Review (PQR). These reports are discussed at the Group's Credit Committee and reviewed with the Group's parent company.

The Group has a strong framework of control around the credit risk activities it conducts which is documented in comprehensive risk policy documentation.

The Group has adopted the Standardised Approach[1] to the measurement of capital relating to credit risk.

[1] One of three approaches in the CRD that a firm may adopt to determine capital requirements through a series of prescribed rules and parameters set for each financial asset class.

3.4 Market Risk

Market risk is the potential loss in value of investments, other assets, liabilities and financial instruments, caused by changes in market variables, such as interest and currency exchange rates and equity and commodity prices.

As the Group does not operate a trading book, market risk exposure is limited to foreign currency exposure on open spot positions of assets and liabilities denominated in foreign currency. This risk is considered to be minimal and is monitored via ALCO.

Interest rate risk is defined as the exposure to movements in net interest income arising from a change in interest rates. The Group's policy is to minimise its interest rate risk by matching its debt-funded fixed rate assets with an appropriate level of fixed rate borrowings. This is reviewed on a monthly basis to ensure that matching levels remain appropriate based on the level of future interest rate risk faced by the Group. Currently the Group's portfolio is financed with short term debt in preparation for the sale of GE Capital Bank Ltd to Banco Santander S.A.

3.5 Liquidity Risk

Liquidity risk is the risk that the business is not able to meet its financial obligations as they fall due, or can do so only at excessive cost.

The objective of the liquidity policy is to enable the Group to meet all financial obligations as they fall due by maintaining sufficient liquid assets to cover cash flow imbalances and fluctuations in funding.

The day-to-day management of liquidity is the responsibility of the Group's treasury team, which manages the portfolio of liquid assets and contingency funding plans. Liquidity risk policy is monitored by ALCO.

The Group finances its operations through a mixture of equity and borrowings from other GE Capital companies.

3.6 Operational Risk

Operational risk is defined as the risk of loss as a result of inadequate or failed internal processes or systems due to actions performed by employees or external events.

The Group manages its operational risks through a variety of techniques including risk identification, incident escalation to ERM and business continuity planning. The Operational Risk Management team is responsible for the development and effective operation of the framework and a consistent application across the Group.

The Group has adopted the Standardised Approach to calculating the Pillar 1 minimum capital requirements for operational risk.

3.7 Concentration Risk

Concentration risk denotes the risk arising from the uneven distribution of credit exposures across counterparties, geography or industry in a portfolio.

The Group monitors concentration credit exposures risk over various dimensions. ERM is responsible for oversight of concentration risk in the business. The Group considers credit risk to be well diversified as lending is distributed across the country to a large number of individual customers with low individual exposures.

3.8 Pension Obligation Risk

Pension risk is defined as the risk to earnings and capital resources arising from an under funded defined benefit pension plan.

The Group participates in three defined benefit multi-employer pension schemes. Pension risk advice and guidance on funding levels is taken from the schemes actuaries. Contributions are affected by the overall surplus or deficit in each scheme.

All three schemes currently have deficits. Capital is held in accordance with FSA rules to cover the additional employer contributions that are forecast to be paid into the schemes to reduce the deficits over the next 5 years.

3.9 Residual Risk

Residual risk arises from a shortfall in the value of a guarantee or collateral held by the Group.

Residual risk occurs primarily in secured auto loans in the Group and is monitored monthly, reported to the Board and is allocated specific provisions for expected losses. The auto risk team utilise credit strategies to minimise residual risk.

3.10 Reputational Risk

Risks that arise when a situation, occurrence, business practice or event has the potential to influence the perceived trust and confidence of the public and/or stakeholders in the business, which may result in measurable negative impact on the financial performance of the Group.

The Group seeks to minimise this risk through close monitoring and control of business activities through the Compliance Committee, Customer Experience Council, the Board and the communications team.

3.11 Regulatory Risk

The risk that an adverse regulatory environment will result in:

(i) Failure to comply with existing regulations;
(ii) Failure to identify new and emerging regulatory changes;
***(iii)* New regulation having an adverse impact on the Group, its model or profitability.**

The Group controls this risk through a Regulatory Early Warning System (REWS), which highlights changes in the regulatory environment. These changes are reviewed by the Compliance function, the impact on the business determined and together with other compliance related risks, are monitored and reported to the monthly Compliance Committee and quarterly Board meeting. Regulatory projects are also managed through the Compliance Committee.

3.12 Talent Risk

The risk that a senior executive or any key person may depart unexpectedly, leaving the Group with a shortfall in its structure or expertise that cannot be covered or replaced.

The Group manages this risk through a number of approaches including investment in people to develop skills and competencies, succession planning and appropriate retention strategies.

4 Capital Resources

The Group follows the rules in respect of the definition and measurement of regulatory capital resources as detailed in GENPRU 2.2 of the FSA Handbook. Regulatory capital resources comprise Tier 1, 2 and 3 capital with associated deductions as described in GENPRU 2.2.6. A summary of the Group's capital resources is set out below.

	Capital Resources (£m)
Tier 1 Capital	
Share Capital	342
Share Premium	505
Profit and loss account reserves	1,381
Externally verified reserves	129
	2,357
Deductions	(78)
Net Tier 1	2,279
Tier 2 Capital	
Subordinated debt	273
Deductions	-
Net Tier 2	273
Tier 3 Capital	-
Total Capital Resources	2,552

Net tier one capital is stated after deductions of £78 million in respect of intangible assets.

Tier two capital comprises subordinated debt issued by a GE Group company. The subordinated debt was issued in December 2007 for a period of 5 years and is amortised for regulatory capital purposes at 20% per annum over the life of the loan. Interest is chargeable on the loan at the appropriate market rate.

The Group does not hold any Tier 3 regulatory capital.

5 Risk Weighted Exposure Amounts & Capital Charges

The Group has adopted the Standardised Approach to determining capital requirements for credit risk; under this approach the risk weightings are applied to the exposure class as prescribed in the CRD. It does not apply any credit risk mitigation techniques.

The Group does not hold any off balance sheet financial instruments. The table below shows the asset balances and minimum amount of capital required for each exposure class as at 31 December 2008.

	Exposures £m	**Risk Weighted Asset £m**	**Capital £m**
Central Banks	0.8	0.0	0.0
Corporates	36.6	36.6	2.9
Retail	2,771.6	2,078.7	166.3
Secured on real estate property	42.1	31.6	2.5
Past due items	37.4	52.3	4.2
Short term claims	3.1	3.1	0.0
Other net assets	386.8	386.8	30.9
Total Pillar 1	**3,278.4**	**2,589.1**	**206.8**

In addition to the above, an evaluation of the capital required to cover operational risk is calculated under the Standardised Approach. The capital allocation to cover operational risk is £68.4million.

The Group has limited exposure to foreign currency exchange rate risk which it seeks to manage through matching foreign currency denominated assets with corresponding liabilities; total capital held to cover these risks is £2.6million.

The Group holds sufficient capital resources (as detailed in section 4) versus the capital requirements as noted above.

The Group has no lending exposures outside of the United Kingdom (UK) or any material geographic concentrations in terms of exposures or arrears within the UK. Retail assets account for 85% of exposures in the UK. Credit risk is considered to be well diversified as lending is distributed across the country to a large number of individual customers with low exposures.

It is the policy of the Group to maintain a loss reserve to provide adequate protection against anticipated future net losses. The reserve amount is established at the inception of the asset and is adjusted in accordance with changes in asset quality. Provisions have been deducted from the appropriate asset values in the balance sheet for calculation of capital, which is disclosed above.

General provisions are made where it is considered that there is impairment in the value of assets not covered by specific provisions. This approach is applicable to the Group's commercial lending business in auto dealerships. The general provisions represent the Board's assessment of the potential losses which, although not yet specifically identified, are known to exist in the Group's portfolio.

Total provisions for bad debts have risen slightly from £111.9 million at 31 December 2007 to £113.6 million at 31 December 2008.

6 Conclusion

This disclosure document is intended to provide background information on the Group's approach to risk management to maintain and preserve the capital position of the Group. It also provides exposures, risk weighted asset information and capital charges under Pillar 1.

In the event that a user of this document has comments or requires further information, they are requested to contact Adam Mussert (CFO) at Adam.Mussert@Santandercards.co.uk