SANTANDER LENDING LIMITED

Registered in England and Wales
Company Number 05831018

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2018

STRATEGIC REPORT

The Directors submit the Strategic report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of Santander Lending Limited, (the "Company") is that of financiers of property assets for the commercial property sector.

Fair review of the Company's business

The profit for the year amounted to £4,630,208 (2017: profit £8,376,837).

The Santander UK Group Holdings plc (together with it's subsidiaries, the "HoldCo 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 the HoldCo Group, which include the Company, are discussed in the HoldCo 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 notes 3 and 4.

By behalf of the Board

S Affleck
Director

30 September 2019

Registered Office Address: 2 Triton Square, Regent's Place, London NW1 3AN

REPORT OF THE DIRECTORS

The Directors submit their report together with the Strategic report and audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of Santander Lending Limited, (the "Company") is that of financiers of property assets for the commercial property sector.

Likely future developments

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

Results and dividends

The profit for the year after tax amounted to £4,630,208 (2017: £8,376,837). The Directors do not recommend the payment of a final dividend (2017: £nil).

Subsequent events

There are no subsequent events.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

A Briggs	(resigned 31 December 2018)
M Ellwood	(resigned 18 September 2018)
C Fallis	
S Affleck	

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

Statement of going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 3, 4 and 17 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, market risk, liquidity risk and other risks.

The Company is part of the HoldCo Group. The Directors have taken account of the fact that the Board of Santander UK Group Holdings plc has confirmed that Santander UK Group Holdings plc is a going concern. As highlighted in note 17 to the financial statements, the Company meets its day to day working capital requirements through a borrowing facility provided by Santander UK plc which is due for renewal.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current borrowing facilities..

REPORT OF THE DIRECTORS (CONTINUED)

Statement of going concern (continued)

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

The process for the UK leaving the EU impacts the economic, legal and regulatory environment across the financial services industry. The HoldCo Group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Financial Instruments

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

The financial risk management objectives and policies of the HoldCo Group and the exposure of the HoldCo Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the HoldCo Group financial statements.

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

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 4.

Qualifying third party indemnities

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

Independent 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 auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

PricewaterhouseCoopers LLP are re-appointed as auditors under s487 (2) of the Companies Act 2006.

By Order of the Board,

S Affleck
Director
30 September 2019

Registered Office Address: 2 Triton Square, Regent's Place, London NW1 3AN

Independent auditors' report to the members of Santander Lending Limited

Report on the audit of the financial statements

Opinion

In our opinion, Santander Lending Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income; the cash flow statement; the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent auditors' report to the members of Santander Lending Limited

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Liam Thompson-Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2019

SANTANDER LENDING LIMITED - 05831018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Note	2018 £	2017 £
Interest receivable		8,873,870	11,847,291
Interest payable	5	(1,534,566)	(708,644)
Other operating expenses	6	-	(77)
GROSS PROFIT		7,339,304	11,138,570
Administrative expenses	7	(1,191,358)	(1,045,994)
Impairment charge		(509,392)	-
PROFIT BEFORE TAX	8	5,638,554	10,092,576
Tax	9	(1,008,346)	(1,715,739)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,630,208	8,376,837

All of the activities of the Company are classed as continuing.

There is no other comprehensive income or expense in either the current or previous financial year other than the profit of £4,630,208 (2017: profit of £8,376,837) as set out in the Statement of Comprehensive Income above.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Issued share capital	Accumulated losses	Other reserves	Total equity
	£	£	£	£
Balance at 1 January 2017	150,000,001	(113,843,672)	153,234,634	189,390,963
Profit and total comprehensive income for the year	-	8,376,837	-	8,376,837
Balance at 31 December 2017	150,000,001	(105,466,835)	153,234,634	197,767,800

	Issued share capital	**Accumulated losses**	**Other reserves**	**Total equity**
	£	£	£	£
Balance at 31 December 2017	**150,000,001**	**(105,466,835)**	**153,234,634**	**197,767,800**
IFRS 9 transitional adjustments	-	**(238,153)**	-	**(238,153)**
Balance at 1 January 2018	**150,000,001**	**(105,704,988)**	**153,234,634**	**197,529,647**
Profit and total comprehensive income for the year	-	**4,630,208**	-	**4,630,208**
Balance at 31 December 2018	**150,000,001**	**(101,074,780)**	**153,234,634**	**202,159,855**

For the Company the application of IFRS 9 decreases total equity at 1 January 2018 by £238,153 (net of tax), comprised of a £294,016 decrease arising from the application of the new ECL impairment methodology, this amount being partially offset by the recognition of a deferred tax asset of £55,863.

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

SANTANDER LENDING LIMITED - 05831018

BALANCE SHEET

At 31 December

	Note	2018	2017
		£	£
ASSETS			
NON-CURRENT ASSETS			
Loan receivables	10	**157,903,324**	243,713,026
Deferred tax	11	**3,212,813**	3,738,476
		161,116,137	247,451,502
CURRENT ASSETS			
Loan and other receivables	10	**299,547,704**	204,296,675
TOTAL ASSETS		**460,663,841**	451,748,177
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	**(258,446,263)**	(250,802,165)
Corporation tax		**(57,723)**	-
Provisions	13	**-**	(3,178,212)
TOTAL LIABILITIES		**(258,503,986)**	(253,980,377)
TOTAL NET ASSETS		**202,159,855**	197,767,800
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	14	**150,000,001**	150,000,001
Accumulated losses		**(101,074,780)**	(105,466,835)
Other reserves		**153,234,634**	153,234,634
TOTAL EQUITY		**202,159,855**	197,767,800

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

The financial statements on pages 6 to 20 were approved by the Board of Directors on 30 September 2019 and signed on its behalf by:

S Affleck
Director

SANTANDER LENDING LIMITED - 05831018

CASH FLOW STATEMENT

For the years ended 31 December

	Note	2018 £	2017 £
Profit for the year		4,630,208	8,376,837
NON-CASH ADJUSTMENTS			
Increase in loan receivables, net		(9,441,327)	(70,694,377)
Increase in trade and other payables		7,644,098	59,610,588
Movement in provision		(3,178,212)	-
Movement in corporation tax		57,723	-
Movement in deferred tax	11	525,663	1,715,739
Decrease in reserves due to IFRS 9		(294,016)	-
Increase in reserves due to deferred tax		55,863	-
		(4,630,208)	(9,368,050)
CASH FLOWS USED IN OPERATING ACTIVITIES		-	-
FINANCING ACTIVITIES			
Receipts from parent undertaking			991,213
NET CASH GENERATED BY FINANCING ACTIVITIES			991,213
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents at start of year		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		-	-

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Principal accounting policies

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

General information

The Company is a private company limited by shares, domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA. The registered office address of the Company is 2 Triton Square, Regent's Place, London NW1 3AN.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have also been prepared under the historic cost convention.

The functional and presentation currency of the Company is sterling.

The financial statements have been 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

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). The new or revised accounting policies are set out below.

The impact of applying IFRS 9 is disclosed in Note 19 "Transition to IFRS 9". The accounting policy changes for IFRS 9, set out below, have been applied from 1 January 2018. Comparatives have not been restated. As a result of the change from IAS 39 to IFRS 9, some disclosures presented in respect of certain financial assets are not comparable because their classification may have changed between the two standards. This means that some IFRS 9 disclosures are not directly comparable and some disclosures that relate to information presented on an IAS 39 basis are no longer relevant in the current period.

As explained in Note 19"Transition to IFRS 9", the classification and measurement changes to financial assets that arose on adoption of IFRS 9 have been aligned in the presentation in the balance sheet. The adoption of IFRS 15 has no impact on these financial statements.

Future accounting developments

At 31 December 2018, the Company had 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:

IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. The application of IFRS 16 is not expected to have any impact on the Company.

Revenue recognition

Revenue for the Company is in the form of interest receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

Upfront arrangement fees on financing agreements with customers are spread on an effective interest rate basis over the contractual life of that agreement. The effective interest rate is the rate that exactly 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 but not 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 a financial instrument and all other premiums or discounts.

1. ACCOUNTING POLICIES (CONTINUED)

Finance income and finance costs

Income on financial assets that are classified as loans and receivables 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 contractual 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 and interest expense on liabilities classified at amortised cost are recognised in the Statement of Comprehensive Income.

Impairment of financial assets

Expected credit losses are recognized on all financial assets at amortised cost or at fair value through other comprehensive income. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Loans and advances to group companies represent a loan to Santander UK plc and Santander Asset Finance plc. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to group companies for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to group companies taking into account the relevant credit enhancements available for the Company in the structure. Accordingly expected losses for loans and advances to group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Cash and cash equivalents

The Company does not hold cash or cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement

From 1 January 2018, the Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information.

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model
The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Solely Payments of Principal and Interest (SPPI)
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

1. ACCOUNTING POLICIES (CONTINUED)

Impairment of debt instrument financial assets

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.
For more on how ECL is calculated see the Credit risk section on Note 4.

The Company categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. The Company has no assets or liabilities measured at fair value that are classified as Level 1.

Level 2: Quoted prices in non-active markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Loans and advances to customers are classified as Level 2.

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.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Some asset amounts reported in the Financial Statements are based on management judgement, estimates and assumptions. There is a risk of significant changes to the carrying amounts for these assets within the next financial year

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

3. 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 operational risk, 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 HoldCo Group. HoldCo Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the HoldCo Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK plc 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 HoldCo Group's strategic objectives.

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

4. FINANCIAL RISK MANAGEMENT

Operational risk

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

The framework incorporates industry practice and regulatory requirements. The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the HoldCo Group's risk committee and board of directors.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk of financial loss arising from the default of a customer or counterparty to which the Company has directly provided credit, or for which the Company has assumed a financial obligation, after realising collateral held. The credit quality of customer assets is mitigated by the credit approval process in place. Credit risk is mitigated by security taken over the borrower's assets. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. All credit risk is concentrated in the United Kingdom.

Lending decisions are based on independent credit risk analysis supplemented by the use of internal ratings tools which assess the obligor's likelihood of default. The output of the ratings tools is a borrower grade which maps to a long-run average one year probability of default.

Borrower grades are reviewed at least annually, allowing identification of adverse individual and sector trends. The grade is integrated into an overall Credit & Risk evaluation, including wider factors such as transaction and borrower structure (ranking and structural subordination), debt serviceability and security (initial and residual value considerations). Consideration is also given to risk mitigation measures to protect the Company, such as third-party guarantees, supporting collateral and security, robust legal documentation, financial covenants and hedging. Transactions are further assessed using an internal pricing model which measures both the return on equity and the risk adjusted return on capital against a series of benchmarks to ensure risks are appropriately priced.

Portfolio asset quality monitoring is based on a number of measures, including expected loss, financial covenant monitoring, security revaluations, pricing movements and external input from rating agencies and other organisations. Should particular exposures begin to show adverse features such as payment arrears, covenant breaches or business trading performance that is materially worse than expected at the point of lending, a full risk reappraisal is undertaken. Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

The Introduction of IFRS 9

IFRS 9 replaced IAS 39 on 1 January 2018. IFRS 9 introduced a new impairment methodology and rules around classification. and measurement of financial assets.

Key metrics
The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with HoldCo Group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL. More details can be found in the Annual Report of the parent company Santander UK plc. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see Note 1 to the Financial Statements.
Non-Performing Loans (NPLs)	The Company uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Company doubt they can keep up with their payments. There are differences between NPL and Stage 3, details of which details can be found in the Annual Report of fellow HoldCo Group company Santander UK plc. Although the Company adopted IFRS 9 from 1 January 2018, the Company continued to monitor NPLs as a key metric in 2018.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Other metrics
The Company also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration.

Maximum exposure to credit risk
The table below shows the Company's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

	Balance sheet asset		
2018	Gross Amounts £000	Loss Allowances £000	Net Exposure £000
Financial assets at amortised cost:			
Loans and advances to customers	209,588	(900)	208,688
Total financial assets at amortised cost	209,588	(900)	208,688

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Management does not believe that the intercompany receivable with related party gives rise to credit risk exposure.

Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

The class of financial instruments that is most exposed to credit risk in the Company is finance agreements, comprising loans and advances to customers.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December 2018.

31 December 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Exposures				
Loans and advances to customers	50,801	158,787	-	209,588
Total exposures	50,801	158,787	-	209,588
IFRS 9 ECL				
Loans and advances to customers	(17)	(883)	-	(900)
Total ECL	(17)	(883)	-	(900)
Net exposure	50,784	157,904	-	208,688

Movements in ECL provision are set out below:

	2018 £000
At 31 December 2017 (IAS 39)	-
Re-measurement	294
At 1 January 2018 (IFRS 9)	294
Charge to income statement	998
Utilisations	(489)
Foreign exchange gains or losses	97
At 31 December 2018	900

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's Balance Sheet, and from the investment of the Company's reserves. Interest rate risk primarily arises in the Company's corporate lending. The exposure in this area is hedged with HoldCo Group's Santander Corporate & Investment Banking (SCIB) division using fixed rate loans and other appropriate instruments. Consequently, changes in interest rates would result in no significant impact on either the equity of the Company or on the profit before tax.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

The Company is dependent on loans from its immediate parent company Santander UK plc. All liabilities are repayable on demand.

The day to day management of liquidity is the responsibility of Asset and Liability Management ("ALM") within Santander UK plc's Group Infrastructure, which provides funding to and takes surplus funds from the Company as required.

The following table analyses the Company's non-derivative liabilities into relevant maturity groupings based on the remaining period to contractual maturity at the Balance Sheet date. 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.

2018	**Repayable on demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	£	**£**	**£**	**£**	**£**	**£**
Due to related parties	**258,446,263**	-	-	-	-	**258,446,263**
Total liabilities	**258,446,263**	-	-	-	-	**258,446,263**

2017	Repayable on demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£	£	£	£	£	£
Provision	3,178,212	-	-	-	-	3,178,212
Due to related parties	250,802,165	-	-	-	-	250,802,165
Total liabilities	253,980,377	-	-	-	-	253,980,377

5. INTEREST PAYABLE

	2018	2017
	£	£
Interest on Intercompany loan – Related party (note 15)	**1,534,566**	708,644
	1,534,566	708,644

6. OTHER OPERATING EXPENSES

	2018	2017
	£	£
Currency losses	-	77
	-	77

7. ADMINISTRATIVE EXPENSES

	2018	2017
	£	£
Management fees - Related party (note 15)	**951,166**	1,045,994
Other expenses	**240,192**	-
	1,191,358	1,045,994

8. PROFIT BEFORE TAX

Auditors' remuneration

Auditors' remuneration of £5,500 (2017: £5,500) for the audit of these financial statements was borne by the immediate parent company in the current and preceding year.

No non-audit fees were borne on the Company's behalf in either the current or preceding year.

Particulars of employees

No salaries or wages have been paid to employees during the year or the preceding year. The Company had no employees in either the current or the preceding year.

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the parent company Santander UK plc. No emoluments were paid by the Company to the Directors during the year (2017: £nil).

9. TAX

	2018 £	2017 £
Current tax:		
UK corporation tax on profit of the year	**57,723**	-
Adjustments in respect of prior years	**369,097**	-
Total current tax	**426,820**	-
Deferred tax:		
Origination and reversal of temporary differences	**1,013,602**	1,942,821
Change in rate of UK corporation tax	**(106,107)**	(227,083)
Adjustments in respect of prior years	**(325,969)**	1
Total deferred tax	**581,526**	1,715,739
Tax charge on profit for the year	**1,008,346**	1,715,739

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profits for the year.

The Finance Act 2016 introduced a further reduction in the corporation tax rate to 17% from 2020. The effects have been reflected in the deferred tax balances at both 31 December 2018 and 2017.

The tax on the Company's profit before tax differs (2017: differs) from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2018 £	2017 £
Profit before tax	**5,638,554**	10,092,576
Tax calculated at a rate of 19.00% (2017: 19.25%)	**1,071,325**	1,942,821
Effect of change in tax rate on deferred tax provision	**(106,107)**	(227,083)
Adjustments in respect of prior years	**43,128**	1
Tax charge for the year	**1,008,346**	1,715,739

10. LOAN RECEIVABLES

	2018	2017
Non-current	**£**	£
Loan agreement receivables	**158,786,427**	243,713,026
Provision for ECL (IFRS 9)	**(883,103)**	-
	157,903,324	243,713,026
Current		
Loan agreement receivables	**50,801,435**	199,516,074
Provision for ECL (IFRS 9)	**(16,774)**	
Other receivables	**175,816**	175,816
Amounts due from related parties (note 15)	**248,587,227**	4,604,785
	299,547,704	204,296,675
Total carrying amount of loans and receivables	**457,451,028**	448,009,701

The directors consider that the carrying amount of the loan receivables approximates to their fair value.

11. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	2018 £	2017 £
As at 31 December	3,738,476	5,454,215
Adoption of IFRS 9 (note 1)	55,863	-
As at 1 January	3,794,339	5,454,215
Income statement charge (note 9)	(581,526)	(1,715,739)
As at 31 December	3,212,813	3,738,476

Deferred tax assets are attributable to the following items:

	Provided		Provided	
Deferred tax assets	Balance Sheet 2018 £	Income Statement 2018 £	Balance Sheet 2017 £	Income Statement 2017 £
Accelerated book depreciation	1,192	(300)	1,491	(327)
IFRS 9 transitional adjustments	50,277	(5,586)	-	-
Tax losses carried forward	3,161,344	(575,640)	3,736,985	(1,715,412)
	3,212,813	(581,526)	3,738,476	(1,715,739)

12. TRADE AND OTHER PAYABLES

Financial liabilities measured at amortised cost:	2018 £	2017 £
Payable to related parties (note 15)	258,440,763	250,318,625
Other payables	5,500	483,540
	258,446,263	250,802,165

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

13. PROVISIONS

	Other 2018 £	Other 2017 £
As at 1 January	3,178,212	3,178,212
Release of provision	(3,178,212)	-
As at 31 December	-	3,178,212

The provision brought forward from the prior year related to performance guarantees in respect of a customer which was sold to a third party in 2016. During the year this was determined to be no longer required and was therefore released. The new provision booked during the year relates to the impairment of financial instruments booked under IFRS 9 and presented net of loans receivable (see note 1 and note 10).

14. ISSUED SHARE CAPITAL

	2018 No	2018 £	2017 No	2017 £
Issued and fully paid				
Ordinary shares of £1 each	150,000,001	150,000,001	150,000,001	150,000,001

All issued share capital is classified as equity

NOTES TO THE FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS

Transactions with related parties

Particulars of transactions with related parties, and the balances outstanding at the year end, are disclosed in the tables below:

	Expenditure	
	2018	2017
	£	£
Santander UK plc – immediate parent	**1,534,571**	708,644
Santander Asset Finance plc – other group subsidiaries	**951,166**	1,045,994
	2,485,737	1,754,638

	Amounts owed by related parties		Amounts due to related parties	
	2018	2017	**2018**	2017
	£	£	**£**	£
Santander UK plc – immediate parent	**244,933,608**	-	**258,440,763**	250,318,625
Santander Asset Finance plc – other group subsidiaries	**3,653,619**	4,604,785	**-**	-
	248,587,227	4,604,785	**258,440,763**	250,318,625

The amounts due to related parties are unsecured and repayable on demand. The loan from Santander UK plc accrues interest at market rates (3 month GBP LIBOR). The loan to Santander Asset Finance plc does not bear any interest and is repayable on demand.

There were no related party transactions during the year, or existing at the balance sheet date, with the Company's or parent company's key management personnel (2017: £nil).

16. CONTINGENT LIABILITIES

At 31 December 2018, Santander UK plc, Abbey National Treasury Services plc, and Cater Allen Limited, which are the three PRA-regulated entities in the HoldCo Group, were party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc including the Company. The parties to the Capital Support Deed 2015 were permitted to form a core UK group as defined in the PRA Rulebook. Exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed was to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breached or was at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group permission as supported by the Capital Support Deed 2015 expired on 31 December 2018. From 1 January 2019 as a result of ring-fencing, Santander UK plc entered into a new Capital support deed with Cater Allen Limited and certain non-regulated subsidiaries including the Company which expires 31 December 2021.

17. CAPITAL

The Company's immediate UK 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 plc Group. Disclosures relating to the HoldCo Group's capital management can be found in the Santander UK plc Annual Report which does not form part of this Report.

18. 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 SA, a company registered in Spain. Banco Santander SA is the parent undertaking of the largest group of undertakings for which group Financial Statements are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which group Financial Statements are drawn up and of which the Company is a member.

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

NOTES TO THE FINANCIAL STATEMENTS

19. TRANSITION TO IFRS9

Statutory balance sheet reconciliation under IAS 39 and IFRS 9

The measurement categories and carrying amounts of financial assets determined in accordance with IAS 39 and IFRS 9 are compared below, illustrating a total net assets decrease of £294,016 as a result of the application of IFRS 9:

Measurement category	IAS 39 Carrying amount at 31 December 2017 £000	Re-measurement £000	Measurement category	IFRS 9 Balance Sheet at 1 January 2018 £000
Loans and advances to customers	443,229	(294)	FVTPL (Mandatory)	442,935

Finance agreements at 31 December 2017 on the IAS 39 basis are disclosed in note 10 as follows:

	2017 £000
Non-current	243,713
Current	199,516
At 31 December 2017	443,229